MAR 23 1948

the MANAGEMENT REVIEW

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MARCH, 1948

AMONG THE FEATURES

The Economic Outlook

What Labor Is Going After

Trial Balance on Taft-Hartley

Saving Money on New Forms

Telephone Tips to Improve Public Relations

Qualifications of Personnel Executives

Taft-Hartley Contract Problems

Union Attitudes Toward Job Evaluation

Making Night Work Pay

Pointers on Hiring Salesmen

The Capital Expansion Boom

AMERICAN MANAGEMENT ASSOCIATION

PACKAGING WEEK IN CLEVELAND . . .

APRIL 26-30 1948

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PUBLIC AUDITORIUM

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CLEVELAND OHIO

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the MANAGEMENT REVIEW

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GENERAL MANAGEMENT...

Survey of Our Economy: Pluses and Minuses

DOES the recent precipitous slide in grain prices mark the beginning of the much-heralded "postwar recession"? Is the country about to experience another 1921? Can the economy shift from its postwar boom to more normal conditions without first going through a severe recession?

Last May *The Economist,* London, said that "it will be very surprising, not to say unnatural, if the present feverish pace of business [in the United States] can be replaced by a rather more sober stride without an intervening adjustment of some severity." A leading weekly magazine now predicts that deflation will definitely set in by midsummer and that unemployment will be rising by July. It anticipates a decline of about 20 per cent in production and about 20 per cent in prices.

A large drop in grain prices will not precipitate a recession unless the country is ready for one anyway. Thus the best way to judge the immediate business outlook is to examine the principal weak points and strong points in the economy today. Let us look first at some of the chief weaknesses.

1. Between the fourth quarter of 1946 and the fourth quarter of 1947 the annual rate of saving declined by $2.1 billion, despite the fact that incomes after taxes rose by the annual rate of $15 billion. The rate of saving by individuals is so low now that widespread fears of recession might easily cause the rate of individual saving to rise, weakening demand for consumer goods and reducing incomes.

2. The proportion of incomes spent on food and drink—amounting now to an abnormally high 30 per cent—might fall to 25 per cent if people become fearful of recession.

3. Considerable progress has been made in catching up on accumulated demand. Radios, for example, are now plentiful. The number of passenger automobiles registered increased by about 2.3 million during the last year and is now at an all-time high, a million above 1941.

4. Total domestic expenditures on capital goods have been large—around $30 billion a year. Widespread uncertainty about business prospects, however, could easily produce some drop in these expenditures.

5. The indebtedness of business concerns to banks, though still low in relation to incomes, has grown considerably during the last year. The holdings of cash and government securities by enterprises have dropped substantially. Current assets now consist far more of inventories and accounts receivable than was true a year ago. As a result, enterprises are becoming more reluctant to increase short-term indebtedness and banks to make additional loans, especially for real estate.

6. The danger that a drop in sales might precipitate considerable unloading of inventories is far greater today when inventories are in excess of $40 billion than a year ago when they were $7 billion less.

7. Net foreign investment (mainly excess of exports over imports), which was much larger in 1947 than in 1946,

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will not increase further and probably will undergo some drop as the rest of the world recovers its capacity to produce.

8. A third round of wage increases has started and seems destined to continue. Wage advances which occur in periods of uncertainty or contraction cause enterprises to look for ways of protecting their liquidity. Thus increased wages will produce offsetting decreases in expenditure.

9. The cash surplus of the federal budget during the next year may be in excess of $7 billion. So long as the economy is expanding, a budget surplus can easily be prevented from being deflationary by being used to pay off government debt held by the public or the banks. Thus, the money taken from the public in the form of taxes is restored to it in the form of repayments of the debt. So long as there is a good demand for investment-seeking funds the money used to repay the debt quickly goes to work. When the demand for loans and investment-seeking funds ceases to expand, however, the funds restored to the public by paying off part of the debt no longer go quickly into circulation and the surplus becomes a powerful deflationary influence.

10. If devaluation of the pound should occur despite British efforts to avoid it, it will put downward pressure on world prices.

Now let us take stock of the principal strong points of the economy:

1. While the prospect for more abundant supplies of grain is excellent, the meat supply is lower than in 1947. No general weakness in agricultural prices is likely—especially not in meat and dairy products.

2. Expenditures are still low in relation to the money supply. Thus, though spending on commodities and services is about 2.4 times as large as in 1940, demand deposits and money outside of banks are about 2.9 times as large. Many important commodities are far below their 1920 price peaks. Furthermore, in comparing prices now and in 1920, one should remember that hourly earnings today are twice as high as in 1920.

3. Private debt is small in relation to national income.

4. Despite progress made in meeting accumulated needs for goods, the backlog of demand is still huge.

5. The accumulated needs of business for plant and equipment are enormous.

6. Accumulated needs of states and cities for streets, roads, schools, hospitals and other public works are large, and expenditures for these purposes during 1948 will be greater than in 1947.

7. The current high level of business activity has been due in the main to consumer buying and to business buying for replacements—the two most stable types of buying and the kinds least sensitive to unfavorable developments in business. Spending on long-range investment plans, the most sensitive type of spending, has been small.

8. The capacity of consumers to expand their demand for goods is still large. They have huge holdings of cash and bank deposits and consumer indebtedness is abnormally low in relation to consumer incomes after taxes. The next six months will see many wage increases and these will add to consumer incomes because under present conditions they will not cause unemployment.

An important element of strength in the economy is that a high level of production has been maintained in the face of stiff taxes and a large surplus in the federal budget. This means that the

government has the powerful instrument of tax reduction to use, if necessary, in halting a recession. There is some danger that the government will use this instrument prematurely.

The many strong features in the economic situation do not assure that the country will not escape an early recession, but they make an early recession unlikely and indicate that, if one occurs, it will be mild.

The drastic drop in grain prices has greatly strengthened the economy and has improved to some extent the prospect that the country can get back to normal activities without experiencing a bad recession. Grain prices, of course, are still high and will sooner or later drop further. Both corn and wheat are still substantially higher than they were a year ago. The drop in grain prices, however, has occurred at a time when it is not likely to be contagious. It has undoubtedly put an effective damper on speculation in grains. Furthermore, it has given the country a vivid example on a small scale of the aftermath of inflation. This will promote a spirit of caution among business men, and if at some later time the rapid rise in bank credit is resumed, perhaps this example will cause the public to insist on a more vigorous policy of control by the Federal Reserve Banks than was pursued in 1947. Thanks to the recent drop in grain prices, every business man can today view the immediate future with definitely greater optimism than would have been warranted a month ago.

By Sumner H. Slichter. *The New York Times Magazine,* February 29, 1948, p. 11:5.

Silent Sound

HIGH-POWER sound waves, some so shrill you can's hear them, have provided a new kind of tool for industry.

The familiar, workaday sound wave that brings you anything from a whisper to a whistle is being intensified and blasted forth to help manufacture carbon black, recover lost chemicals, purify "sour" gas, banish dangerous flue dust, and hurry the drying of drugs and soap. Powerful sound waves are expected to speed paper-making by 20 per cent and eventually shatter airport fog from the air. This doesn't count achievements which are termed possible but are apparently uneconomical—such as lighting fires without matches.

The work is done by sound-making machines—new strong-lunged generators that chop compressed air into powerful sound waves. These husky gadgets have moved the science of high-power sound out of the test tube and put it to work in the factory.

Take the new sound machine which is being installed in the plant of a big soap maker to help spray-dry soap. Powerful high-pitched sound waves will be aimed at the soap as it's sprayed out to dry. The sound vibrations will jiggle the droplets of soap so vigorously they'll zig-zag as they fall, covering 200 times the normal distance in the same amount of time. This violent motion means faster drying. It is claimed the same sound-bouncing process can be used to spray-dry drugs, detergents, powdered milk or coffee.

The human ear can catch sound that vibrates up to 15,000 times a second. (That's pretty shrill; the high note on a piano, for instance, vibrates only about 4,000 times a second.) Remember the silent whistle that your dog can hear but you can't? It has a frequency of about 25,000 cycles. Sound-scientists have produced, by electronics, waves vibrating at a fantastic 12 million times per second.

—Richard B. Cole in *The Wall Street Journal* 1/26/48

What Labor Is Going After

NO major surprises, one king-sized implication—that is the sum of labor's third-round demands as they take on a final polish for spring conference tables. Aside from wage increases, specific demands center around security—health - and - accident insurance, pensions, guaranteed annual (or weekly) wages and severance pay. Indications are that labor will drive these points home as hard as possible—a policy which, if union leaders can make it stick, may well fix this year in the minds of employers and employees alike as the "welfare year."

There are plenty of straws in the wind to reveal the thinking that motivates labor leaders as negotiations draw near. Take the case of Walter P. Reuther, president of the United Automobile Workers, and, as a vice-president of CIO, a top-drawer policy maker for its 6,000,000 members. His four main planks are:

1. Substantial wage increases unless Congress acts to roll back prices "a minimum of 12 per cent." Union executives say that to hold the present wage level and lower prices would suit them better, but they see little or no hope of effective Congressional action in this direction. Meanwhile, labor is only lukewarm toward President Truman's controls program, because it would place a ceiling on wages.

2. Employer-financed plans for life insurance, hospitalization, and medical, sickness, and accident benefits for workers *and their families.* For the past year, UAW has retained a consultant in this field at $15,000 and expenses. The union estimates automotive workers have lost 14,000,000 man-days of work ($151,000,000 in wages) in two years.

3. An extensive pensions program, with employers paying at least 60 per cent of the cost "in addition to wage increases otherwise due."

4. A guaranteed weekly wage as a preliminary to a guaranteed annual wage.

Since UAW is one of the unions which, together with steel and coal, set contract patterns, the consequences of its achieving one or more of these objectives—aside from a straight wage increase—are obvious. To those union chiefs who have similar planks in their own platforms, it will add the strength of a major precedent. To those without them, be they CIO or AFL, it will be a direct invitation to include like demands at the earliest opportunity.

One thing is very clear: *Most managements with labor contracts coming up for renewal this year are going to face extensive welfare demands.*

In addition to the foregoing, management can look forward to four other common demands:

Severance pay.—A severance-pay clause is common in Newspaper Guild contracts. Moreover, the predictions, from time to time, of a recession underscore the current importance of this measure in the eyes of hourly workers.

Equal pay for equal work.—The door is already partly open as a result of fairly widespread elimination of differences in men's and women's pay due to sex alone. The union aim currently is to secure identical rates for identical work throughout an industry. The objective is to break down geographical differentials and discourage industry migration. In the background, some observers see in this demand a desire for industry-wide bargaining and industry-wide agreement on the

part of UAW, chief proponent of the equal-pay clause.

Election Day holiday.—The importance of political activity on the part of all loyal trade unionists is one of the few specific issues on which both AFL and CIO leaders see eye to eye. Both main groups and probably the majority of independent unions will press for this concession this year as one means of getting out the labor vote.

Immunity from Taft-Hartley law.—Concessions have already been granted in a few cases, usually in the form of management and labor foregoing the right to sue one another.

Furthermore, with the closed shop outlawed, labor leaders will intensify their campaigns for the union shop, even in cases where a straight maintenance-of-membership system has been satisfactory. A new twist has been suggested by a number of unions. They ask for the promise of a union shop in the event workers approve the idea in the required NLRB poll. This amounts, of course, to employee ratification of the union shop after it has been, in effect, promised—an arrangement yet to be tested legally.

The union drive against piecework and incentives will also be on. Union leaders claim such plans are speed-up devices, and the term "speed-up" is anathema in labor circles.

There are, naturally, a number of smaller issues. For example: six paid holidays; paid vacations; organization of the unorganized, e.g., white-collar workers and professional engineers (draftsmen, designers, and the like).

This, then, is the labor picture. No surprises.

Factory Management and Maintenance, January, 1948, p. 110:3.

How Essential Is Export Business?

TO determine just how essential the present export business is to the average manufacturer, *Mill & Factory* conducted a survey among all types and sizes of manufacturing companies.

Some of the major findings follow:

1. Under 10 per cent of their total sales are for export trade outside the United States, 75 per cent of the respondents report. Sixteen per cent report that 10 to 20 per cent of their total sales are for export trade.
2. Of those respondents who are now doing some export business, 70 per cent state that if export business should suddenly stop entirely, the domestic demand for their products would permit them to continue operating at present capacity. Twenty-eight per cent report they would operate at 75 to 100 per cent of present capacity.
3. Assuming that there is no major business recession in the United States, the loss of their export business would have little effect on the full operation of their plants during the next two years, according to 63 per cent of those now producing some products for export. Seven per cent report that loss of export business would have serious effect on their full plant operation.
4. Seventy per cent of those now carrying on export business report that they plan to increase their export business during the next two years.
5. Looking to the future, 49 per cent of the respondents now carrying on export business say they believe that some export business is essential to the financial well-being of their companies.
6. Again looking to the future, 48 per cent of those now conducting export business believe that some export business for their companies is essential as a means of maintaining full employment of their workers.

—*Mill & Factory* 11/47

First Aid for Feeble Confabs

MANY a meeting that would fit well under gaslights is held in today's fluorescent-lit offices.

Get the average management man in a corner, question him about the meetings he has to attend, and chances are at least even that his answer will be one of the following: "Dull, stuffy, waste of time"; "too many of them"; "a kind of living death, but please don't quote me." And it's probably an apt description too.

Many firms, however, such as Standard Register Company, Dayton, Ohio, and Budd Company, Philadelphia, hold meetings that are the very life of the organization.

Brains that keep the company ahead of competitors, experience that improves all hands, enlightened self-interest that builds teamwork and loyalty, spring not from one man but from groups of men at all levels. In their varied meetings, they are constantly exchanging what they have that's of value to one another.

For the benefit of companies that have not in the past achieved best results from their conferences, here is some typical advice from the men who make their meetings good ones.

Use as widely as possible, in all kinds of meetings, the conference techniques that are common in training courses. They build interest. Be lavish with charts, graphs, illustrations.

Try to find areas in which the participants can be given authority to make decisions, or at least recommendations that will be given serious consideration. People tire of one-way talks and lectures; feel their ideas are important if they are taken seriously by management.

Be certain the meeting is necessary first; don't hold it just because it's the custom to meet at certain times. If certain problems must be solved, define them accurately beforehand, then see that the facts of the situation will be available at the meeting.

Keep speakers on the subject. See that discussion follows this order: (1) the problem; (2) facts of the situation; (3) result desired; (4) all possible solutions; (5) narrow possible solutions down to one by examining and eliminating other possibilities singly.

See that a summary is given when a decision is made, so participants will better recall the reasoning behind it. Have written memos or summaries distributed after the meeting, to remind those responsible for carrying out specific actions, and to keep informed any who are absent but might be affected by the discussion.

Running a meeting doesn't just come naturally to most people. Have a trained leader or chairman prepared to ask leading questions when discussion lags, able to shut off windy speakers when it's the reverse.

Let people know a week or 10 days in advance, if possible, what subjects are coming up. Then they will be prepared. Otherwise they are apt to spend the entire meeting trying to think up something bright to say themselves, instead of listening to other speakers.

Where action is to be taken, have participants of approximately equal authority. Otherwise, as wise a variety of viewpoints and interests as possible is desirable. Everybody is apt to have a few blind spots, but when different kinds of experience are represented there is less chance the conference will overlook a vital fact.

Where the primary purpose of meeting is to broaden the outlook of promising younger men, make membership in the group a mark of distinction and honor.

No one attending a Standard Register Company meeting of any kind is likely to mutter, "I bet George Washington slept here." A look at the company's methods will show why.

Virtually every executive who has a private office has facilities in it for meetings: a conference table, a blackboard, and an easel with a large pad of paper for visual demonstrations.

Certain meetings are of necessity made up of the same people—executive committee, factory-management council for foremen and supervisors, factory round table for assistant foremen, and training classes and conferences. Many others, however, are one-time or special-task meetings, called to solve a specific problem or consider a definite proposal. For example, there may be a lag in answering inquiries that come in by mail. The office manager calls in the supervisor and the stenographers who type answers. A chart showing how many inquiries are answered in one, two, three days, etc., is put before them. They are asked why some inquiries are delayed a week or 10 days, and what can be done about it. Suggestions go on blackboard or easel pad, get debated.

The importance in foremen's meetings of giving the men authority to make decisions is recognized at Standard Register. Foremen, like anyone else, can be conferenced to death, especially when subjects are general, not tied down to their own plant problems, and when no action is to be taken as a result of the meeting anyway. Trainees receive a summary of their proceedings just as executive-committee members do. And nobody with the rank of assistant foreman or higher who attends any kind of meeting at Standard Register is without training in conference leadership. His training not only will fit him to take more advantage of factory-management council meetings when he becomes a foreman, but will also fit him to conduct the small departmental meetings of rank-and-file workers (consultative management groups) from which the company gets a constant supply of suggestions for improving work methods in every department.

In General Foods Corporation training in conference leadership went to the top men first. When General Foods gave a solid week of executive training classes, it opened the course with a session on this subject. The company, impressed with the results, decided to adopt the technique in a training program for operating and department heads.

In the Budd Company and Industrial Tape Corporation, where conscious streamlining of meeting methods has started with foremen, results have been as good. Prestige of being chosen for membership in discussion groups has built morale; conduct of the meetings has built management-mindedness and paid an extra dividend in the constant supply of ideas for new methods and policy improvements coming out of the sessions.

The Chinese summed it up long ago: Man who fall asleep when boss shoot off mouth all time, sit up and use brains, you give him chance.

Modern Industry, September 15, 1947, p. 46:4.

A Labor Leader Looks at Industry's Human Relations

AMERICAN industry, particularly in recent years, has made unlimited progress toward one of its major goals—the achievement of maximum physical production. The energy of the atom has been harnessed. The drawing board has sent forth better planes, ships, automobiles. The technical organization of industry has marched forward with gigantic strides.

But what of the human side of the picture? What of our other major goal—the maximum development and realization of the aims of each individual? Progress and human know-how toward achieving that goal have been painfully slow and halting. We have not advanced impressively with regard to social organization. The development of industrial workers to their fullest capacity for service and achievement has not kept abreast of our scientific advancement. Opportunities for self-realization and expression have been submerged by the industrial machine. The matter of human welfare has been of secondary and incidental importance in the drive to produce goods.

One of the earliest attempts at labor-management cooperation was that of the International Association of Machinists and the management of the Baltimore and Ohio Railroad in 1923—popularly called the B & O Plan. It represented a new phase of collective bargaining in that it fostered mutual and unrestricted exchange of ideas between employer and employee, peaceful settlement of differences, and—most important—the all-out participation of employer and employee in the prevention of waste and the promotion of efficiency.

The plan in outline duplicates the collective bargaining machinery on the road. After the system-wide contract is signed and a working agreement drawn up, the representatives of labor and management continue their relationship through joint local committees. These committees meet at periodic intervals to discuss shop problems and offer suggestions for improvements. Basically, the cooperative function is separated from the bargaining process. Suggestions are advanced by the rank and file of the union membership and by the supervisory staff of the railroads. All suggestions are thoroughly considered and disposed of in one fashion or another. No loose ends are permitted. If the questions and suggestions are beyond the scope of the local committee, they are passed to a regional or central committee for action. The meetings bring home to both sides the fact that consultation and mutual understanding are to the benefit of all concerned.

The gains to management that have resulted from this plan are, to mention only a few: improved shop efficiency, savings through utilization of thousands of constructive ideas put forth by employees, increased employee morale and pride of workmanship. Moreover, B & O in the 1929-34 depression years actually was increasing its payroll when other roads were laying off men.

Labor, too, has gained much. Of prime significance is the fact that regular employment has been increased for the shopmen. In addition, all railroad work insofar as possible is performed in the company's own shops. And ad-

justment of grievances has proceeded in a business-like manner.

One of the great difficulties of labor relations has been the disregard with which executives have treated the problem of human organization. They have attempted to inflict all sorts of radical and material changes upon employees, without the active participation or consideration of the individuals affected.

A case in point involved a metal-working establishment in a midwestern city organized by the machinists and other crafts. The management had been sold on a job evaluation and classification plan which would "properly and scientifically" align the jobs in the factory—from least skilled to most skilled. The objectivity of the plan, however, flew straight in the face of the customary and traditional working relationships in the establishment.

In one department all jobs had been paid the same rate prior to the job evaluation. The engineers moved in and set up 12 jobs and 12 rates where one had existed before. Immediately, production declined, and employee discontent and hostility increased. Upon further investigation, it was found that the employees had always functioned as a team; they were capable of operating each other's machines, and they therefore expected the same rate of pay. The employees had established a social organization among themselves which lent assistance whenever a fellow member of the team was in distress. This was the hub of their daily activities; their sentiments and attitudes flowed from their associations in the work unit.

When advised of the reasons for the drop in production, top management remained adamantly behind the job evaluation system. The employees through their union opposed its continuance just as vehemently. With discussions deadlocked, the foreman of the department was called into the controversy. He stated that if the new job structure was continued, it would be impossible to maintain production standards. In view of the practical and experienced approach of the foreman, the management decided to reinstall the original method of operation.

The job evaluation method of rating such factors as responsibility, skill, mental requirements, physical demand, working conditions, and supervision fails to treat as relevant the very things that give meaning and substance to the individual's work. In their haste to pigeonhole each individual in the productive process, the industrial engineers lose sight of that which makes effective collaboration possible: the complete integration of the individual in the technical and social organization of the establishment. A rigid job evaluation procedure which overlooks such basic factors as the seasonality of employment, the prospects for advancement, the established routines of work, and the traditions of workmanship and fellowship in the shop, fails to recognize that a man's job is often the main pivot about which his life revolves.

Proper utilization of our human resources is a task of first magnitude. The waste of labor resources during past decades has been phenomenal.

The cost of unemployment in the period from 1929 to 1937 has been estimated at $200 billion. Loss in income due to the idleness of men and machines in the nine depression years was, in production terms, enough to provide a new $6,000 house for every family in the country. The failure to use the available manpower resources of this period was sheer, unpardonable waste.

The waste resulting from failure to tap the latent skills and creative abilities

of employees has never been estimated. On the B & O Railroad, 14,000 suggestions were offered in a three-year period; 81 per cent of them were approved and placed into effect. The resulting increase in wages ran into hundreds of dollars per employee. Management savings have been enormous, and have taken many forms, such as decreased labor cost, better workmanship, less turnover, greater business. If this one segment of the economy could accomplish so much by the labor-management cooperative device, then the size of the nation's loss from not realizing the maximum productive potential of every industrial worker is indeed beyond conception. The national loss in income and production because of failure to adopt human relations in industry is staggering—and, like unemployment, it is morally unjustifiable waste.

Labor's main aspirations are security and opportunity. Security deals with the economic realm of well-being; security from unemployment, accident, disease, old age. Opportunity refers to a chance for leisure, recreation, education, and the opportunity for advancement in position; the opportunity to realize one's self; the right to express one's view; the feeling of participation in a socially productive venture; the striving for recognition; and the assumption of responsibility. These are the desires of the average working man. These are the ends that American industry should strive to accomplish for those who toil in its vineyard.

It is not benevolence on the part of industry to make the individual a working partner. Management may still be motivated by the desire for earnings and dividends, and labor may still seek better wages, regular employment, and a "place in the sun." These ends are not inconsistent with each other. The adoption of effective and practicable methods of human organization in the shop would lead to ever greater productivity. Certainly, the profit motive and the fully developed worker are not incompatible. We can work along parallel lines to the same goal—an America of material abundance and spiritual greatness.

If our way of life is to survive, we must remove the wall of mistrust, misunderstanding, prejudice, and animosity which exists between capital and labor. This cannot be done by pious wishes but by the actual extension of free collective bargaining and labor-management cooperation at all levels of industrial production for the benefit of consumers, owners, and labor.

By Harvey W. Brown (President of the International Association of Machinists). *Labor and Nation,* November-December, 1947, p. 25:3.

Trial Balance on Taft-Hartley Law

THE threat of another coal strike brings nearer the first major test of the Taft-Hartley Act. Our months of experience since passage have necessarily been inconclusive. There is need for a great deal of clarification of the law, which undoubtedly will come through court interpretations this spring and in the early summer, when the legal 60-day notice period will af-

fect a large number of expiring agreements signed hurriedly just before the law went into effect.

But our experience under the Act to date, though limited, is not without certain significant implications.

Passage of the law has had a sobering effect upon unions and upon many employers. The uncertainties it has created have made it a contributing factor in accelerating return to collective bargaining, which was disrupted during the war. Clearly employers have on the whole exhibited the restraint throughout this period foretold by their earlier reassurances to employees that they did not "intend to conduct their employee relations by lawsuits." According to the latest figures available, employers initiated action in less than one-fifth of the complaints of unfair labor practices docketed in December and sought elections in less than 10 per cent of the representation cases. This is not the deluge that labor prophesied when opposing the legislation.

Representatives of government claim the law has already demonstrated its effectiveness in checking jurisdictional disputes and secondary boycotts. It is in this area that the provision for government initiation of injunctions has been used most frequently. To date only one injunction has been sought to restrain an employer from continuing alleged unfair labor practices. If the injunction procedure is to be used, it should be applied as freely against employers as against unions. Review of the number of complaints filed with the NLRB shows that employers remain the target of unfair labor practice charges in the vast majority of cases. Equality of treatment in this connection is very important psychologically, for it was the return to the injunction more than any other part of the new law which gave rise to labor's charge that it was a "slave labor law."

There have been five court decisions based on the injunctive power of the government. One of these, in which the court sustained the government's petition for an injunction against a union, is of particular importance because of the ruling that the Norris-La Guardia anti-injunction act could not be used to thwart the will of Congress expressed in the Taft-Hartley Act. Undoubtedly, the Supreme Court will have the final word. A number of test cases are in progress, the most important being the suit to enjoin the International Typographical Union. In Washington circles, this is regarded as a preliminary test of the law's effectiveness in preventing another coal strike. If the government wins its case against the ITU it believes its hand will be greatly strengthened in a power contest with John L. Lewis and the coal operators.

A record-breaking total of petitions for elections has been filed. In December they totaled 1,325—only 37 less than were filed in the preceding three months. In straight elections for recognition as collective bargaining agents the unions are not doing quite so well as they did under the Wagner Act. Approximately 10 per cent of the elections petitions docketed in December are for decertification, namely, to throw out existing bargaining unions. In only two has the board ordered elections held. The established unions have lost out in a number of these cases, but in others the action has

seemed to make the unions take steps to reform the conditions which led to employee dissatisfaction.

On the union-shop authorization elections, the unions are winning most of the polls—all but three out of 664—according to the latest figures available. But to the old-line unions with long established closed-shop agreements this compromise is unacceptable. The ITU Chicago strike and strikes in other places highlight this conflict. It remains to be seen whether the government can enforce the prohibition against the closed shop. There is little doubt but that many unions which have long enjoyed the closed shop will resist such attempts to the bitter end.

About a third of the unfair labor-practice cases filed in December were brought by individuals. This is an indication of one of the handicaps under which union organizers now work, namely, the fear that the workers—or the employer whose plant they are attempting to organize—will file unfair labor-practice charges against them. This would delay organizing campaigns considerably because of the long and involved NLRB procedure, which requires that no election for representation may be held while an unfair labor-practice charge is pending. This is an organizing hazard of which the unions are very conscious. Unfortunately, it does give anti-union employers and employees a good chance to frustrate organization. But its use is also fraught with danger to employers, who thus merely prolong the almost inevitable disturbance which accompanies most such campaigns.

Clearly it is too early to reach any final conclusions as to the good and bad features of the labor-management relations act. The constitutionality of the effort to prevent unions from expressing political opinions in their publications certainly requires early court review; and there are many other troublesome questions upon which the Supreme Court must rule. Subsequent events may well change even these tentative and preliminary observations. A change in business conditions will be bound to affect developments. Under present prosperous conditions neither management nor labor is in a hurry to take any action which will force an issue—"rock the boat." Neither is willing to exploit the full potentialities of the law while peaceable solutions can be reached.

But if conditions should become depressed, managements will be increasingly tempted to use the weapons given them under the Act to weaken the unions so as to secure lower costs. In that event, the unions will have to counter-attack vigorously, using every device accorded them under the law to harass employers, and resort to strike action. Will the new mediation machinery of the law suffice to prevent disastrous breakdowns then?

By Elinore M. Herrick. *New York Herald Tribune,* February 13, 1948.

• NEARLY 40 PER CENT of all wages and salaries paid to employees in the manufacturing industries in 1946 were paid by the iron and steel industry and its principal customers. The total of wages and salaries paid by the companies which make iron and steel and the companies which fabricate ferrous metals into end-products was $14.1 billion, 39.2 per cent of the $36 billion paid workers in all manufacturing industries.

—*Steel* 3/1/48

OFFICE MANAGEMENT...

You Can Save Money on Your New Forms

WHEN a procedure involving new forms is being installed in an office, all too often the forms have to be revised, not once but several times. The actual use of even the most carefully planned forms brings to light omissions or misjudgments on the part of the designer.

If a quantity of the forms has been printed — and usually if they are printed a large quantity is ordered— they are frequently used, despite the need for improvement. Or they are made into scrap pads, and revised forms are ordered. But they make expensive scrap pads, and often even the second and third tries at the new forms may be unsatisfactory.

To avoid such waste, many office managers and systems men don't print the new forms at first. They prepare them on mimeograph stencils, or offset plates, or by hectograph. And, they don't run off a large number in advance. Then when a change is necessary it can be made inexpensively without much waste.

Often a form is designed so that information may be typed on it in hectograph and reproduced on other printed forms. It is not practical to print the entire form in hectograph and reproduce it, as well as the typed-in variable information, on a blank sheet of paper. A printed hectograph form is expensive and if a quantity is purchased the hectograph ink is likely to dry out before the form is used. Particularly is this unsatisfactory on a form for a new procedure in which changes are likely to be made.

The most satisfactory way to introduce forms into a new procedure is the following:

First: Draw the lines of the form on master hectograph paper, using hectograph carbon under the paper so that the impression comes off the carbon on the back of the form.

Second: Type the headings and other fixed information on the master hectograph paper, preferably with a VariTyper, still using the hectograph carbon. The VariTyper enables you to get all the headings in their proper places, just as in printed material. Also, it gives a more professional appearance to the form.

Third: Using this master, run off two or three dozen secondary masters on master hectograph paper exactly the same as that on which the original master was drawn and typed. Since the original master will reproduce about 200 copies, you still have over 150 reproductions left on it.

Fourth: Using hectograph "copy" paper, run off all the copies you can of the original master. You now have master forms and neat copies of them, at a minimum of expense.

To use these forms in day-to-day operations, it is only necessary to type or write the variable information on one of your secondary masters, again using the hectograph carbon so that the typing or writing appears in hectograph on the back of the master. Now you

can put this secondary master in the duplicating machine and, using your "copies" which were run off on copy paper, you can get as many completed copies, including the variable information, as are needed.

If your variable information includes red figures, they can be produced in red by using red hectograph carbon when typing them on the secondary master.

If a change in the form is necessary, a new master can be made and secondary masters produced in a matter of minutes. But after the form has proved itself in actual operation, it is best to have a plate made and a number of copies produced by printing or offset, because the hectograph master has to be re-drawn after every couple of hundred reproductions are run off from it. Offset is, of course, less expensive than printing, and if the typing is done by a VariTyper on the offset plate you will get a professional-looking form that is as satisfactory as a printed job.

By G. L. Harris. *Office Management and Equipment,* October, 1947, p. 69:2.

Telephone Tips to Improve Your Public Relations

AMERICAN business leads the world in spending millions on public relations activities. It leads the world in the use of the telephone. Yet it continues to jeopardize its huge good-will investment by telephone practices that are careless, sloppy, stupid, and ineffectual.

It doesn't cost a cent to employ the techniques that give an organization an attractive telephone personality. Presented here are 10 simple but effective suggestions.

1. *Answer the telephone promptly.* —This applies to switchboard operator, secretary, and executive alike. A quick response suggests an alert, interested, on-its-toes organization. It would appear unnecessary to warn that a switchboard never should be unattended during business hours, yet thousands of small firms violate this obvious principle, especially during lunch hour. Always have a relief operator ready to take over. If you have no switchboard, make sure that all telephones are covered. You can have the telephone company install a button arrangement so that one girl can pick up calls on several telephones from her desk without running all over the office.

2. *Identify yourself or your organization properly.*—"Hello" does not constitute adequate identification. It has long been the American habit to poke fun at the British opening, "Are you there?" but the only superiority of "Hello" is that it is one syllable shorter. Of course, identifications vary among switchboard operator, clerk, secretary, and executive. The switchboard operator should announce the firm name or, if several organizations are served by the same switchboard, the telephone number. The clerk says, "Traffic Department, Miss Smith." The secretary answers, "Mr. Jones' office, Miss Smith." The executive answers by giving his name.

3. *Hold the receiver correctly.*—There seem to be more ways to grip a

telephone instrument than a golf club. There is only one correct way to hold a telephone, however, and that is with the mouthpiece directly facing the mouth, about one inch from the lips. It is not considered approved form to tuck the instrument against the shoulder by craning the neck to one side in order to free both hands.

4. *Use a natural, pleasant tone of voice.*—Have you ever had a telephone conversation with a Business Office representative of one of the Bell Telephone Companies? Her pleasant, friendly, interested tone immediately creates a definite mental picture. In the mind's eye, she's gracious and glamorous, though actually she might double for Gargantua's bride. No telephone personality is expressed solely through the choice of words and the tone of voice, and the latter is as important as the former. If you say "That's very kind of you" in a bored or sarcastic tone, your words lose their meaning. But if your tone conveys sincere appreciation, you need not even utter the actual words.

5. *Don't leave your telephone without leaving a message.*—When you go out arrange for someone else to pick up your extension, or tell the operator you are going out and when you expect to return. And remember, a secretary or an operator who has not been given proper training in telephone manners can scuttle a firm's public relations. How many secretaries, for example, have been guilty of the cardinal telephone offense of first asking who's calling and then saying that the party being called is out?

6. *Keep pencil and paper handy.*—This seems so obvious as hardly to warrant mention. Yet one can telephone the largest newspapers or magazines in the country and be told, "Just one minute while I get a piece of paper." This is a decided imposition, especially if one is phoning long distance, and it certainly is not alert or efficient business practice.

7. *Don't abandon a calling party.*—A switchboard operator or a secretary often has occasion to advise a calling party that a certain extension is busy, in which case the caller may elect to wait. The operator or secretary must resist the temptation to use this interlude as an opportunity to finish reading *Inside U. S. A.*, and should return to the line at about one-minute intervals until the connection is made or a message to call back is taken. Time never travels more slowly than when you are holding a mute telephone, especially with the growing suspicion that you have been cut off. After all, it's so easy to say, "I'm sorry, that line is still busy."

8. *Stay on the line.*—Business men don't ring doorbells and then walk away without waiting for a response. But how often has the following happened to you recently?

> Your extension rings and you answer it: "Jones speaking."
> Female voice: "Mr. Jones, Mr. Smith of XYZ Advertising Agency is calling you. Just one minute, please."

That's all, but it's plenty! Apparently Smith doesn't mind wasting your time so long as none of his own precious time is consumed. He's calling you, yet you have to wait for him! Hardly an approach designed to win friends and influence people, yet it is used by many executives. No, switchboard operators and private secretaries aren't the only telephone offenders!

9. *Terminate the conversation clearly.*—When you've finished speaking make that clear to the other party. Don't be rude or abrupt, but don't be

vague about concluding. Don't keep the party in a state of indecision, uncertain whether you're through talking or not. And don't terminate the conversation by saying "Bye bye." It makes a strong man sound like a weak sister.

10. *Hang up carefully.*—When the conversation is terminated, listen for an extra second to be sure your party hasn't been struck with an afterthought. Then replace the receiver carefully. That is like quietly closing the door after a visitor. But if you slam the receiver, it is like slamming your door at a visitor's heels—and he's not going to be anxious to give you a chance again.

BY STEPHEN P. LEWIS. *Printers' Ink,* December 26, 1947, p. 36:2.

Incentives to Step Up Office Output

TIME study, motion analysis, incentive methods, and other aids to factory output are frequently regarded by office managers as unsuitable for adaptation within their sphere of activity. But since the basic principles underlying these scientific methods—the accessibility of items worked with, the elimination of all but essential movements—are as applicable to repetitive operations in the office as in the factory, such methods may be installed in the office to the benefit of both the firm and the clerical worker.

The advantages of motion economy and time study are not without a counterbalancing disadvantage, however. The very fact that jobs are broken down and planned to become automatic lays the clerk open to attacks of ennui. In addition, the zest is taken out of an individual job, and something must be put in to take its place. The only thing that can be installed is an incentive to make the extra sustained effort worth the worker's while.

Presented here are concrete examples of office incentive schemes that have been proved by experiment, and are now operating effectively in British companies. They are based upon the assumption that the typist receives a basic pay of £5 a week for five days of 7½ hours. The standard or normal day's work has been assessed at 45,000 strokes. Each line (average strokes) costs therefore .32 of 1d. on a salary only basis, assuming that the standard is maintained. There are six incentive schemes workable with this particular case, and they can be described as: (1) the piecework plan; (2) the differential piecework plan; (3) the task and bonus plan; (4) the premium plan; (5) the efficiency plan; and (6) the time allowance plan. Let us examine each in detail:

Piecework Plan: The typist is paid so much per line with a guaranteed minimum daily rate of £1. At 0.32d. per line, an output of 938 lines (or 56,280 strokes) would give the typist £1 5s.—or time and one-quarter.

Differential Piecework Plan: As above up to, say, 800 lines per day, with a slightly higher rate for lines in excess of this figure. This plan ensures a greater effort to exceed the guaranteed minimum daily rate and helps offset the effect of fatigue at the end of the day. Assuming a differential of 0.10d., total earnings for 938 lines would be £1 6s. 11d.

Task and Bonus Plan: The typist

is set a task of, say, 120 lines per hour with a guaranteed minimum daily rate of £1. When this target is achieved, a flat bonus of, say, 1s. per hour is paid in addition to the guaranteed rate. This is an extremely simple plan to operate, but owing to the fact that the typists gain all or nothing, the target should be somewhat lower and the remuneration for achievement higher than that of other systems. With the example given, total earnings, for 900 lines or over, would be £1 7s. 7d.

Premium Plan: The typist is paid £1 per day and is expected to do 45,000 strokes. If she does them in six hours she is paid 16s., i.e., four-fifths of £1, plus half of the time saved (three quarters of an hour at 2/8d. equals 2/-). Thus she receives 18/- for six hours of work, which is at the rate of 22/6d. for a full day. The proportion paid to the typist may vary according to circumstances, but normally ranges from one-third to two-thirds of the saving. It is obvious that to earn time and one-quarter under this plan the daily target must be lower than under the straight piece rate plan.

Efficiency Plan: The typist is expected to complete 45,000 strokes per day. Actually she completes 53,000 strokes and is therefore 120 per cent efficient. She receives a bonus of, say, 25 per cent for 120 per cent efficiency, making a rate for the day of £1 5s. In practice, it will be found advantageous to pay a bonus of 1 per cent at 66⅔ per cent efficiency, gradually extending the bonus percentage as higher degrees of efficiency are attained. This encourages the slower workers who cannot maintain the high standard represented by 100 per cent efficiency. An important advantage of this plan is that an employee can work on many different jobs during one day, week, or month, yet her efficiency is calculated readily by dividing the actual time taken for all work performed into the total standard times for the work.

Time Allowance Plan: The typist is credited with a time allowance for all work done. For instance, if in one day she cuts 165 address plates (time allowance 1.2 minutes per plate), and imprints 8,000 plates on envelopes (time allowance 1 minute per 20 impressions), she would be credited with nine hours 58 minutes (say 10 hours) for work she performed in 7½ hours. As her daily rate is £1, she would receive £1 6s. 8d. for her day's work.

In the case of lost time—e.g., machine breakdown or waiting for work, and where an employee has to undertake part-time duties to which incentives cannot be applied—full normal time at the appropriate hourly rate should be allowed. In other words, for these periods the employee neither gains anything apart from the normal rate of salary nor loses any bonus earned earlier or later in the day. Incentive earnings are calculated in these circumstances on the reduced number of hours and not the full, normal 7½ hours.

By R. Stanley Smith. *Business,* December, 1947, p. 80:3.

• THE UNITED STATES suffered more conflagrations during 1947 than in any other year in its history, according to the National Board of Fire Underwriters. Estimates of annual fire loss showed that there were 33 major fires during the year, each involving a million dollars damage or more, as contrasted with 28 conflagrations in 1946, 26 in 1945, and 25 in 1944.

—*The Insurance Broker-Age* 1/48

"Dear Sir:"

THERE'S a move afoot to eliminate the "Dear ...." salutation and the complimentary close in business letters.

Rebels against the conventional form of approach and exit in business communications have formed The Society for Abolishing Dear in Business Letters. Some 220 firms are now represented in the Society.

Like all crusaders, they think they have something to save, though with them it's not the world but the valuable elements of time, self-respect, effort, paper, and ink.

Lever Brothers Company, devotee of the change, suggests typing the recipient's name and address as usual in the upper left corner and then saluting him like this: "It's a pleasure, Mr. Whitney, to send you three copies of our booklet, etc . . ."

The idea presents other advantages. When you are writing someone who owes you money and doesn't want to pay, the conventional greeting of "Dear Mr. Simpson" is insincere. Under the new form, you have the satisfying feeling of having said nothing more endearing, nor anything more offensive, than "Hey! Mr. Simpson, let's have it."

Business men interested in the Society's efforts should write to: E. Willis Jones, 111 E. Delaware Place, Chicago, Ill.

—*Kiplinger Magazine* 10/47

What Does Industry Seek in Its Clerical Workers?

A SURVEY* among 500 personnel directors of firms in the New York metropolitan area shows what the average employer requires today of applicants for clerical positions. The companies participating in the poll ranged in size from 100 to 55,000 employees. Highlights of the findings follow:

To the question, "What type of applicant do you prefer for secretarial and general office work?", 38 per cent of the personnel directors replied they preferred high school graduates with business school training; 26.2 per cent, college graduates with business school training. Previous office experience came in for a third choice.

Responses to the question, "What skills or training do you look for most today in applicants for office work?", revealed that 91.1 per cent look for training in bookkeeping, shorthand and typing, and use of office machines; the balance desire ability as file clerk or receptionist, and the following skills in descending order of importance: general clerical, clerical-posting, comptometry, typing, statistics, mathematics.

The Gregg and Pitman shorthand systems were preferred by 69.1 per cent of the executives. Speed expected of a beginner in shorthand by 66.7 per cent of employers was 100 to 120 words per minute. The speed expected of a beginner typist was 45 to 60 words per minute in 92.3 per cent of the cases.

Eighty per cent of the respondents said they hire males for office work. The jobs open to men: accountant, bookkeeper, office machine operator, secretary, file clerk, stenographer; under "Other" were listed the following in descending order of importance: general clerical, messenger, traffic clerk, sales clerk, mail clerk, stock clerk, office boy, credit clerk, correspondent, purchasing clerk, timekeeper, payroll clerk, sales trainee, typist, price clerk, claim clerk.

Chances for a male secretary to advance to a responsible executive position were "fair," according to 59.8 per cent of the employers; 22.3 per cent said chances were "good"; 14.3 per cent, "excellent."

Many prominent nation-wide organizations cited examples of former male secretaries who rose to such top positions in their corporations as Executive Assistant, President, Chairman of Board, Vice President, Corporate Secretary, Assistant Secretary, Assistant Treasurer, Plant Manager.

* Conducted by Public Opinion Polls, Inc., for The Drake Business Schools, Inc.

PERSONNEL...

Qualifications of Personnel Executives

INFORMATION which helps to sharpen our picture of practicing personnel executives emerges from the findings of a recent survey* conducted among 84 leading manufacturing organizations in the radio, automobile, steel, glass, food processing, and electrical equipment fields. Twenty-eight of the replies received were from local industries employing 61,804 persons; 56 came from national concerns employing 1,630,169. The questionnaire results are presented below.

Title of position: In all, 19 titles were reported. Those most frequently reported were Director of Personnel (21); Personnel Manager (15); and Industrial Relations Director (13). Seven titles were reported once; three titles, twice; five titles, three times each.

Age: Personnel executives in companies employing more than 5,000 average 45 years of age; those in companies that have fewer than 5,000 employees average 39 years of age. One executive fell in the age range 20-29 years; 33 in the range 30-39; 27 in range 40-49; 16 in range 50-59; and one executive was more than 60 years of age.

Personnel experience: The returns indicate that in companies employing fewer than 5,000 employees the personnel officers have, on the average, between 8 and 9 years of experience; in companies employing more than 5,000, the executives reported an average of 14 years of experience. The average length of experience is 11.54 years.

Education: Fifty-five, or 67.9 per cent, of the executives were college graduates. Masters' and doctors' degrees are not infrequent among the executives in organizations having more than 5,000 employees. Positions which practicing executives held since leaving school and before accepting present positions were in order of reported frequency: sales, production supervisory work, employment, and teaching. Most of the positions carried responsibility and demanded initiative.

Academic courses recommended: The executives were asked to indicate which of their past academic subjects they found to be of most value in their present occupation. Psychology enjoyed a wide margin of preference over the second choice, Economics. The remaining choices were so scattered that no distinct pattern emerges. When asked to recommend courses to be included in a college training program for personnel workers, the executives named the following: Psychology (69); Public Speaking (65); Personnel Management (62); Economics (62); Labor Relations Legislation (59); Labor Problems (57); Industrial Management (56); Job Evaluation (53); English (51). Time and Motion Study was suggested by 37 executives; Statistics, by 30. Only one executive named Engineering, while three offered Psychological Testing.

* Conducted by the author.

It is of interest to note that only three respondents mentioned Psychological Testing and only 30 mentioned Statistics. It is probable that many of these firms use tests, but either they subscribe to the opinion that "anyone can give tests"; or they may regard the psychologist or psychometrist as a specialist not to be classified as a personnel worker.

For the most part, the respondents did not envisage a professional sequence of courses comparable, for example, with the training one takes to become a dentist. Indeed there was little evidence that they think of personnel work as a distinct profession.

In securing staff members, common practice of the executives surveyed is to select college graduates. But a number of the respondents said they wish only an individual with a broad cultural background. Many stated that they did not believe personnel work could be learned through college courses, maintaining that the special techniques of personnel work can best be acquired through employment in industry.

Indicative of the emphasis the respondents placed upon work experience which will teach the personnel man business practices, as well as how to get along with people, is the following typical comment:

> When we hire a man from outside the company for personnel work, ordinarily we put him in the shop, working at a regular occupation for several months, or even as long as a year. We want him to learn shop practices, customs, jobs, occupational base rates; and most of all, to learn to like and to be able to get along with shop people.

One respondent expressed the general feeling as follows: "Few of us joined our companies with the specific objective of personnel work in mind." Many were transferred to personnel work after being engaged in production.

By Donald S. Parks. *Occupations,* February, 1948, p. 288:2.

Ivory Hunting Grows Harder

INFLATION has finally caught up with the one-time bargain basement of the U. S. talent mart. Corporation men who work the college circuit for likely executive material—"ivory hunting," in trade jargon—complain that the market has never been so unruly. Prices are up at least 100 per cent over 1941, and students who once would have snapped at a firm's "training squad," "school of applied distribution," or some other euphemism for $25 a week are having a wonderful time playing hard to get.

In the material with which the ivory hunter hopes to lure a job prospect to his company, wording is important. Students are highly partial to positions that appear tailored for the brilliant and the ambitious. The nature of the immediate work is equally important: production is a favorite, with marketing and corporate finance close seconds.

Salary, of course, is a crucial factor. Take, for example, the case of the ivory hunter who goes recruiting at Harvard's Graduate School of Business Administration. The going rate for a Harvard B-School man, $125 a month in 1939, is currently running at about $300 a month. Most of the commercial banking houses are dropping out of the bidding at the $260 mark. And other firms, though they still pay top rates, are becoming restive.

But the ivory hunters are hopeful. "The market," one says with a sly grin, "will be . . . changing one of these days."

—*Fortune* 1/48

Contract Problems Under the Taft-Hartley Act

By GEORGE MOSKOWITZ
Director, Labor Relations Section
Research Institute of America, Inc.

THE third round of pay-hike demands which unions will make during the next few months will confront employers with more than a labor cost problem. For the first time, management will be brought face to face with the realities of the Taft-Hartley Act.

Confusion as to the meaning of the law is to be found at every level of union, industry, and government administration. Much of this fog will be dissipated eventually by court interpretation of the provisions of the Act, of course. But management can't wait for that. Employers who have to negotiate and sign a new union contract now must take the risks of action. And they should know how and where to minimize those risks. Presented here are a few of the really tough problems raised by the statute, together with some pointers on how to solve them.

Sixty Days Notice.—The law provides that no party to a collective bargaining contract covering employees in an industry affecting commerce shall terminate or modify the contract without taking the following four steps:

1. Serving written notice on the other party of the proposed termination or modification 60 days before expiration date. If the contract contains no expiration date, notice must be served 60 days prior to the time of the proposed termination or modification.
2. Offering to meet and confer with the other party for the purpose of negotiating a new contract or a contract containing the proposed modifications.
3. Notifying the Federal Mediation and Conciliation Service within 30 days after such notice of the existence of a dispute, and simultaneously notifying the state mediation agency if no agreement is reached by that time.
4. Continuing in full force and effect, without strike or lockout, all the terms or conditions of the existing contract for 60 days after the notice is given, or "until the expiration date of such contract, whichever occurs later."

Existing contracts are variously affected by the 60-day notice provision, depending on the contract language. To understand how the provision works, it is necessary to bear in mind its purpose, i. e., to set a 60-day period in which the parties can discuss their proposals without an immediate strike threat over their heads. Let's examine some typical situations:

1. Suppose a contract expires on a definite date and neither party gives notice of intent to change the contract 60 days before that expiration date. What happens to the contract after the expiration date? Can notice be given at any other time? It is generally believed that the contract remains in effect indefinitely until either party requests a change. The terms of the old contract control until 60 days after the notice is finally given. Until that time neither party can resort to economic force such as strike, lockout, or unilateral change. This differs radically with the common-law concept of contracts and their status after expiration. But common-law rules aren't controlling in interpreting collective bargaining agreements.

2. Suppose a contract contains an automatic renewal clause requiring notice of an intention to terminate 30 days before the specified date. When must notice be given? If neither party to the agreement desires to change or terminate it, neither will give the 30

days' notice; thus the contract will automatically renew itself. But remember that if neither party gives the 30-days' notice required by the contract, the company will probably be bound to a renewal of the agreement as it stands for such period as the contract specifies. On the other hand, a party desiring to give notice, in order to comply with both the 30-day requirement of the contract and the statutory 60-day requirement, might either give the notice 60 days in advance of the contract anniversary date, and give the 30-day notice too, or else merely give the 30-day notice required by the agreement and let that stand as the 60-day notice also.

3. Does the 60-day notice requirement apply to a wage reopening clause which permits reopening on a specified date? It would appear to apply if any bargaining at all is involved. If the provision merely calls for application of an escalator clause, the change is automatic without notice. However, if the clause itself sets forth a notice provision, it must be followed. For example, if the contract merely says that it may be opened for wage negotiation on a certain date and you want to make a change, safe procedure would dictate giving notice 60 days before the date specified. The same woud apply to any notice required of the union. The statute isn't clear in this situation, and it doesn't pay to be technical. It can reasonably be argued that the date set forth in the contract is the date on which negotiations are supposed to start. Only a lawsuit could definitely determine the answer. But if you get a 60-day strike-free period following the notice, that would seem to be adequate compliance with the statute.

Communist Unions.—In effect, the Taft-Hartley Act bars the use of NLRB machinery in election proceedings and in unfair labor practice cases to unions whose local and international officers fail or refuse to file affidavits stating they are not Communists. What does this mean to employers, particularly those who are dealing with the United Steelworkers, CIO, United Electrical Workers, CIO, and the United Mine Workers, Independent—the three powerful internationals which have refused to file the required affidavits? Such employers are confronted, on the one hand, by a well-established rule dating back to cases decided under the old Wagner Act, that majority representation of employees, not formal NLRB certification, is the vital factor which determines an employer's obligation to bargain with a union. Pitted against this, however, are the Board's recent rulings that it will not certify a union which hasn't filed the non-commie affidavits; that such a union can't get on a formal NLRB election ballot; and that the Board won't hold an election based on an employer petition where the only union demanding a contract is an unqualified one.

The employer who is faced with this problem must ask himself: How much loyalty does the union command among the employees? If it lacks a majority, dealing with it is illegal in any event. If the union represents a majority of the workers, then:

1. Management should find out why the international or local has not complied. Some internationals, such as the CIO Steelworkers and the UMW, want to test the law in the courts. They are not left wing. They can qualify at any time which suits their purpose. Some local unions, like some business men, don't bother to fill out government forms until they have to.

But some unions have not filed for fear of investigation.

2. If only one union is involved and it's a newcomer at the plant, management can agree to a poll by an impartial person or agency to determine its majority standing. This may turn out to be much less costly than a recognition strike.

3. If the company is now under contract with a non-complying union, it's safest to continue carrying out the terms. The union may not be able to bring a refusal to bargain charge, but there's nothing to prevent it from suing for breach of contract in the courts.

4. If a contract with a non-complying union has expired and the firm is negotiating a new one, breaking off negotiations doesn't seem advisable unless the company has reason to believe the union no longer commands support of a majority of the workers. Management might take this tack. Impress the union representatives with the problems and the risks they will take if they face long-drawn-out negotiations. In this way, they might be persuaded to trade or yield some of their demands for a quick wrap-up of the deal.

5. If another union appears to be signing up the company's workers with an eye to demanding recognition, the company might insist on formal NLRB intervention to protect itself.

Discharging Communists.—A unionized employer can fire only within the limits set down by his contract. In most cases this means only "discharge for cause." But there are few guideposts on the meaning of "cause." In two cases, arbitrators refused to okay discharges based on Communist membership per se, even though in one of the cases the employer claimed the worker used the channels of the employer's organization to spread Communist propaganda. This company recently changed its contract with the union to include the following clause:

> Any person who in the course of the performance of duty as an employee of (name of employer) wilfully fails to carry out the employer's program or who wilfully carries out any program other than that of (name of employer) may be charged with malfeasance.

In this 1948 presidential year when the left-wing unions plan to exert political pressure, it might be advisable for other firms to write such a clause into their contracts. At any rate, management should come to some understanding with the union that any activity by a Communist which impinges upon the policy or operations of the company, or creates ill-will among its suppliers or customers, or directly impairs a worker's usefulness on the job, or lowers morale or discipline in the plant is proper cause for discharge.

Keeping Workers Posted.—Taft-Hartley permits the employer to tell his employees what rights they have under the law as it stands and to speak his mind on unionism and on particular unions—provided his statements contain no threats or other coercive remarks. For example, an employer can now advise his workers that they (a) may refrain from joining a union unless there is a legal union or closed shop; (b) may not be discharged at union request except for nonpayment of initiation fees or dues; (c) may seek decertification of the union if 30 per cent of the employees cooperate in the signing of a petition.

Union Security.—The Taft-Hartley Act has outlawed the closed shop—at least in all new contracts after August 22, 1947. Employers may, if they so choose, negotiate a union-shop con-

tract. This provision of the statute has really turned out to be a boomerang for most employers. Management willing to grant a union shop can't get a contract signed, sealed, and delivered until NLRB holds a referendum. What's more, Labor Board statistics covering these elections show that employee approval of the union-shop authorization is overwhelming.

The union security problem is further complicated by state law variations on the federal union security theme. To date at least four states—Colorado, Kansas, New Hampshire, and Wisconsin—have adopted laws which differ from those of the Taft-Hartley Act. Until the boundaries of federal and state jurisdiction over unionization are marked out, discretion would seem to dictate that:

1. Management should not grant the closed shop. The federal law prohibits it. And this probably applies even in states which permit the closed shop if local voting requirements are met.

2. The employer should insist that the union comply with both state and federal law in a state which requires a vote before union security can be negotiated. It may be that the union will not be able to meet the more restrictive legislation.

3. Management should secure from the union a contract commitment that the union will reimburse the firm for any damages suffered by executing the security agreement or discharging employees under it if it should be held to be illegal under state or federal law.

4. Provision should be made for cancellation of the union security clause in the event it is declared illegal.

Check-off. — Heavy penalties imposed under the Taft-Hartley Act make it imperative that management know the rules on check-off of union dues. Before an employer can deduct them from the workers' wages, he must get a *written assignment from each employee.* Moreover, the individual must have a chance to revoke his authorization at the end of a year, or at the end of the contract term, whichever is earlier.

If a company makes a long-term contract, including a check-off, for a term longer than one year, the right of individual employees to withdraw the check-off consent must be preserved. The statute does not say, however, that the employer must get renewals of authorization every year; he may continue deducting the dues even beyond the year until such time as the individual exercises his right of revocation. Working out this kind of deal may be better for the company than demanding new authorizations each year. This would only put a fire under the union to conduct an annual authorization drive.

Where the check-off was instituted before June 23, 1947, and extends beyond July 1, 1948, the employer may deduct dues without individual consent up to the latter date. But from then on he must observe the laws on check-off—both state and federal. Employers should watch out for state laws that regulate the *assignment* of wages. The Taft-Hartley Law requires a "written assignment." Congress undoubtedly was thinking of assignment as an authorization or consent rather than the legal transfer of property. But the states might apply their strict rules on assignment of wages to check-off arrangements. Management should take a look at the local law covering the assignment of future wages before working out any check-off provision.

Job Tutoring

A BUMPER crop of workers is being schooled for American industry. More than five million men, women and youngsters—three times the usual prewar number—are now being tutored for jobs in factories or stores. The nation's bewildering patchwork of technical institutes and vocational schools is being patched some more—to fill a growing need for manpower with know-how. Federal, state, and local money is being thrown into the task.

The re-patching comes none too soon, according to the men who do the tutoring. During wartime the young men who would have become the specialists of today were drained off to combat service.

They describe the typical factory's operating personnel as a three-layer affair: At the top are the "big brains," the highly educated engineers; vocational education has little to do with them. In the middle are the skilled technicians, who supervise processes and carry out the engineers' conceptions. Below them are the rank and file of workers—nearly all with certain skills—who do the bulk of the work that can't be shifted to machinery. Both these groups must be trained—but in different ways.

For every full-fledged engineer, factories need an average of five technicians, educators explain. They're the quality control men in food canneries, the estimators and draftsmen in the building industry, the metallurgical assistants in a ball-bearing factory. A college degree isn't required to handle this work, but special training in the work itself is necessary.

Technical institutes to give two additional years of specialized work after high school are being opened to meet the demand for these specialists. New York State, for instance, has started five this year in such industrial centers as Buffalo and New York City under a five-year experimental program. That brings to 11 the number of such schools in the state.

For lesser jobs, the training may be far less strenuous and require little preliminary schooling.

Schools try to offer courses in occupations for which there is a demand. Committees of management and labor often advise both on the need for workers and on the type of instruction to be given.

Practical work is stressed as much as or more than "book larnin." At the Los Angeles Merchandising Training Institute, for example, students go to school three hours a day, work four hours weekdays and all day Saturdays in downtown stores. (Other schools procure summer work for their pupils or work out an arrangement whereby two students can hold down one job during the school year by each working half time.)

This school is a cooperative venture between the school system and a businessmen's association, which put up $30,000 for equipment. Students are rotated through the departments of one of the 18 member stores. Later on in their one-year course, they will specialize, shooting for jobs as assistant buyers, assistant personnel directors or some other of the junior executive positions which make up 15 per cent of the stores' jobs.

Technical institutes are customarily open to workers already in industry who want to better the work they are now doing or get out of a blind alley. Because they work in daytime, they have to get their schooling at night.

The vocational education system now spends more than $400 million a year on training workers, an official of the Federal Office of Education estimates. Vocational courses are given in about half this country's 24,000 high schools.

—*The Wall Street Journal* 12/19/47

House Organ for Employees' Kids

ADVENTURES AHEAD, General Electric Company's new teen-ager magazine, presents a new method for management to get its story to the families of employees. The 32-page magazine, issued bi-monthly, is filled with news, pictures, articles about G-E, the company's research and experiments—all slanted to the younger generation. Employees obtain subscription cards from their foremen for their children, or their little brothers or sisters.

—*Modern Industry* 11/15/47

Effect of Union Attitudes on Job Evaluation Plans

ONE of the most important considerations in wage and salary administration is the attitude of the union or unions with which a company is bargaining. The degree to which the success of a job evaluation plan hinges upon organized labor's acceptance of it is pointed up in the findings of a survey of management and labor representatives of 56 companies—representing a wide range of industries—conducted by the Industrial Relations Section of Princeton University.

Of the 56 respondent firms that reported the operation, or attempted operation, of job evaluation plans covering occupations within a collective bargaining unit, more than half indicated that difficulties with unions interfered with the effective maintenance of their systems, and it was apparent that fundamental questions concerning the relation of job evaluation to collective bargaining often remained unsettled.

Thirty-four of the 56 plans were applied unilaterally by management. The union, in these cases, exercised the right to review and challenge individual rates but did not necessarily accept the principles of job evaluation. Most of the companies operating unilateral plans furnished the union with job descriptions and rate ranges for occupations within the bargaining unit, but often the method for converting job-evaluated rankings to actual rates was not disclosed to the union; two companies furnished job descriptions and rate ranges only at the request of individual employees; six companies refused to supply any information to the unions except under pressure.

In eight cases, the unions participated in job evaluation to a limited extent, though the plans were essentially unilateral in application. Limited participation amounted to the requirement that new evaluations be approved by the union before becoming effective and, in three instances, the union was permitted to send observers to the meetings of the job evaluation committee. Eleven of the 56 companies operated joint union-management job evaluation plans. The remaining three firms reported that job evaluation plans were not formally installed because of union opposition.

Some of the companies reported that union support or approval had been secured through joint job evaluation, specific acceptance in the contract, or through implicit acceptance by the union's leaders. The actual wage structure evolved in these cases was much more likely to reflect the values indicated by job evaluation than in wage programs operating without benefit of union cooperation.

Without exception, union officers at all levels expressed their desire for an orderly rate structure and agreed that job content was an important consideration, along with other pertinent factors, in achieving this purpose. Several union leaders pointed out that trade unions have long advocated adequate job descriptions and standard occupational rates. In general, however, the majority of union officers interviewed were critical of formal job evaluation plans as a means of wage determination.

Most of the dissatisfaction expressed by representatives of labor was, directly or indirectly, related to an inherent fear that any management technique to determine wages "by formula" would limit collective bargaining. One official of a large international union, who was particularly vehement in his

objections, doubted whether any system could be devised to reflect "eternally" a sound relationship between jobs. Such methods, he said, tend to reduce complex human factors to mere mathematical formulae, limit the area of bargaining, confuse the union, and becloud the real issues. Other union officers stated that job evaluation effectively limits the area of bargaining, by confining the consideration of job values to a fixed number of factors and establishing maximum wage limits. In the opinion of one international union officer, "the selection of any fixed number of factors and the establishment of a set relationship between them is not consistent with the economic facts which cause the relative value of the factors to change in various stages of the business cycle."

While not all the unions disagreed with the general principles of job evaluation, many questioned the applicability of the particular plans selected. Prevailing opinion was that point and factor comparison plans are too complex to be understood by union members and that complicated formulae and fancy charts only heighten confusion.

Though there was considerable divergence of opinion as to whether or not a union should participate in job evaluation, the majority of the union officers interviewed preferred not to participate, reserving the right to challenge any rate management may set. The logic of this attitude is that participation in a job evaluation plan necessarily involves the assumption of responsibility for the results obtained. Union leaders who opposed participation recognized that the results of job evaluation may not always be entirely palatable to their members and feared that, by binding themselves to a particular system of wage determination, they limited the scope of collective bargaining.

Many of the local union's objections were primarily concerned with alleged malpractices on the part of management in the administration of job evaluation rather than with the question of acceptance or rejection of this technique in principle. Officers of some locals, for example, questioned management's real motives in applying job evaluation, stating that "the results of a laborious process of evaluation were intentionally distorted to fit the pre-conceived opinion of the evaluator."

Many other union officers believed management had been too secretive about the technique used and the data on which its decisions were based. Despite several companies' attempts to withhold information from the unions, all top union officers interviewed said they had secured the essential information. Further, every management attempt to keep the system confidential served only to increase suspicion and to discredit the plan in the eyes of the union's membership. Objections were also raised against systems that were used to forestall wage grievances but were not applied uniformly to increase all rates to the levels indicated by job evaluation.

The general impression revealed by interviews with union officers was that job evaluation, or its absence, did not greatly concern the individual employee unless it directly affected his pay envelope. Because job evaluation did not result in a substantial wage increase, the president of one local reported that his members were disappointed in the plan installed by their company. An officer of another union

felt that this technique can be used to create rank-and-file dissension by emphasizing the interests of one particular skill as opposed to the interests of the group as a whole.

On the whole, the survey results point to the conclusion that job evaluation in a unionized plant normally works to the greater satisfaction of both parties if the basic relationship of the evaluation plan to wage setting is made clear in the labor agreement. It is helpful to "spell out" the union's participation in the setting of rates for new jobs, or procedures in the case of challenge by the union of a unilaterally set rate. Advance understanding as to conditions and time of rate review by the union or management minimizes disputes on rate changes during the life of an agreement. Inclusion in the agreement of specific understandings concerning the operation of a job evaluation system is an attainable goal if the union is not fundamentally opposed to any systematic alignment of rates. If the union is opposed, management faces the alternatives of dropping formal job evaluation or of attempting to apply it without union acceptance.

Established plans have often been continued with varying modifications after unionization and without the formal approval of the union. Likewise a number of companies reported instances of newly developed plans which the union had refused to accept as the principal basis of rate determination and which, nevertheless, had been used informally by management as a guide in setting rates for new jobs. Both such arrangements have been practical devices for giving a company some of the benefits of job evaluation. They are, however, likely to be uncertain and troublesome. Moreover, they are at best only a means of postponing the inevitable day when management and union must come to some workably satisfactory agreement as to the place of job evaluation in wage setting.

From Chapter VII of *The Operation of Job Evaluation Plans—A Survey of Experience*. By Helen Baker and John M. True. Industrial Relations Section, Princeton University, Princeton, N. J., 1947. 111 pages. $1.50.

*Paid Vacations and Sick Leave in Industry**

ABOUT three out of four manufacturing establishments, by 1945-46, had formal paid vacation plans for plant workers after a year's service, and almost nine out of 10 provided paid vacations for office workers with similar length of service. In contrast, formal plans for paid sick leave were uncommon both for plant and office workers. Typically, plant workers received a one-week vacation with pay after a year's employment; office workers were allowed two-week vacations in more than two-fifths of the establishments with vacation plans. Information available for the machinery industries indicated that after five years' service, two-week vacations were most common for plant as well as for office workers.

The interest in vacations as a collective bargaining objective is reflected in the rapid increase in the number of agreements providing vacations. In 1940, only about 25 per cent of all workers under union agreement were entitled to paid vacations, as contrasted with 85 per cent in 1944.

Data for 1945-46 were collected as part of Bureau of Labor Statistics general

* **Summary of a study by the Bureau of Labor Statistics.**

wage surveys of 56 manufacturing and seven non-manufacturing industries. The manufacturing industries together employed about 5½ million workers, or more than a third of the entire manufacturing labor force in the country, and comprised more than 34,000 establishments. The non-manufacturing industries included 19,000 establishments having 1,300,000 employees.

Formal vacation plans tended to be most common in industries characterized by large operating units and high wage rates, and, within the individual industries, were most frequently provided in large unionized establishments.

Among the major manufacturing industry groups for which data are available, the chemical industries provided vacations most commonly after one year's service and also tended to furnish the longest vacations. Though the metalworking industry group granted vacations somewhat less frequently than did other industry groups, there was considerable variation among the separate industries within this group. While the apparel trades ranked relatively high in paid vacations for plant workers, they provided somewhat shorter vacations for office employees than did the other industries studied. As far as individual industries outside these major industry groups are concerned, the cigar, set-up box, structural-clay product, and furniture industries fell below the all-manufacturing average for formal vacation arrangements.

Of the non-manufacturing industries for which data were available, almost all department, clothing, and limited-price variety stores, as well as electric light and power systems, provided vacations for both plant and office workers after one year's service. On the other hand, less than half the power laundries and under three-fourths of the warehousing establishments reported such plans for plant workers; seven out of 10 power laundries provided paid vacations for their office employees. In nine out of 10 warehouse establishments, office workers were granted vacations after one year.

Among office workers, the two-week period was more frequent than the one-week period in the chemical industries and electric utility industry; in the metalworking industries, it was of equal importance with the one-week vacation.

Considering the picture regionally, the Southeastern and Southwestern regions lagged behind other areas in paid-vacation practices in most manufacturing industries; the Pacific region ranked highest in the proportion of such plans. New England clothing and department stores granted two-week vacations more frequently than one-week periods; stores elsewhere generally followed the custom of one-week vacations in effect in both manufacturing and non-manufacturing industries. Though vacations were more common for office employees than for plant workers in almost all industries studied, this pattern was not found in every region, apparently because office workers were sometimes given vacations on an informal basis.

Formal plans for paid sick leave for plant workers were found in less than 3 per cent of the manufacturing establishments studied, though more than 8 per cent granted sick leave to office workers. Chemical establishments led other manufacturing industries in formal sick-leave plans and also differed from other establishments in providing such leave more frequently for plant than for office workers. Sick leave was granted more frequently in the non-manufacturing industries studied than in manufacturing. More than half the electric light and power systems regularly paid their workers for time lost while sick, and a third of all retail stores studied had plans in operation in 1945 and 1946.

Seniority Enforceable

SENIORITY rights are privately held, and are legally enforceable. They may not be interfered with by any union-management agreement to favor one worker or group over another. The U. S. Circuit Court of Appeals in Norfolk has so ruled, in a case filed by a Negro fireman against the Norfolk-Southern Railway and the Brotherhood of Locomotive Firemen & Enginemen. The charge was that the complainant's rights had been ignored in an agreement to give choice jobs to white firemen. The decision required management and union to obey seniority rules.

—*Business Week* 9/6/47

PRODUCTION MANAGEMENT...

Making Night Work Pay

WITH materials on a feast-and-famine basis, with labor and equipment shortages clamping output, night work seems to many companies the only solution to production problems. Presented here are some ideas management can use to improve efficiency on night shifts.

Aside from selection of work, production problems are much the same at might as they are by day. Jobs should be simplified as much as possible for the night shift, and tools and materials prepared in advance. Otherwise, the same methods that work by day work at night.

But when it comes to such questions as liaison and chain of command, and setting shift hours, the night shift presents special problems.

Take liaison for instance. Management gives day workers information on company policy, personnel matters, and engineering developments by simply calling them together and talking to them. Getting information to the night staff isn't that simple. Bulletins and memos help, but the whole job can't be done in writing. The day shift—particularly the day foremen—must pass information along to the night shift by word of mouth. And it isn't always easy to make sure they do it.

Too often, when day and night foremen have equal standing and authority, rivalry tends to develop. The day foreman isn't too anxious to help the night man along. Some type of incentive is needed. Best incentive is to give the day foremen authority over the other shifts. Some companies find this makes for better cooperation all along the line and for clearer definition of responsibility. Centralizing authority in the day foreman has other advantages, too. In most plants, the day shift is the "first team." Day foremen have been with the company longest and are best equipped to handle the tough jobs.

Crown Cork & Seal Company, Baltimore, notes that night workers want and need the same services day workers have. It may not seem worth while to keep the cafeteria open at night, particularly if the night shift is small, but it pays big dividends in keeping workers happy. Important also is recreation for night workers. The company's second and third shifts both have their own bowling leagues. In addition, plant-wide social events are always held on Sundays so night-shift workers' families can come too.

It seems to make little difference whether shifts are rotated, so that men work each shift for a certain number of weeks, or permanently set, with men definitely assigned to one shift or another. Each plan has a few features to recommend it, and a good many drawbacks. Three companies which have both types in operation—Ingersoll Steel, Acme Steel, and Fabricon Products, Inc., sum them up this way:

When shifts are permanently set, workers who have the most seniority and highest skill will get the preferred day jobs. That leaves the less-experienced, less-skilled workers for the night shifts. On the credit side, there is that

small, reliable corps of men who actually prefer night work. And permanent assignment to it lets them arrange their lives accordingly.

Rotation of shifts, on the other hand, distributes the discomfort evenly and assures that there will be good workers on all shifts. One trouble, though, is that foremen and lead men generally don't rotate. Thus workers have different supervisors each time they change shitfs; they have no one man to whom they can turn for help, advice, and information. It's a lot harder, also, to develop teamwork between workers and supervisors when the men rotate. And the biggest drawback to rotation is the fact that the men must constantly change their eating and sleeping habits.

General experience indicates, therefore, that a company starting night work for the first time will probably find permanently-set shifts a little easier to handle.

Choice of actual shift hours depends on local laws, number of shifts, and, most important, on the hours kept by the office—by management. Having shift hours meet or overlap office hours is a good idea. Thus night workers have a chance to take advantage of personnel services; night foremen have a chance to see engineers, tool designers, and top management.

Legal limitations on hours of work apply mostly to women workers. (But management should keep up-to-date on state laws even when the night shift is all male.)

When night workers are "forgotten men," production lags and quality suffers. Are you giving them all the help you can and getting the most profit by taking steps like the following?

1. Do top executives (president, personnel manager, production chief, etc.) visit the plant regularly at night —at least once a month?

2. Does the day shift do everything possible to smooth the way for night shifts by checking tools in advance, delivering materials to work stations, etc.?

3. Are all engineering services made available to the night shift? Does the night superintendent have a key to blueprint files? Is there at least one toolmaker on duty? Are engineers on call?

4. Is every method used to make sure night workers "get the word" on company policy, production methods, engineering changes, etc.?

5. Is lighting adequate, not only for safety, but also for good vision? (Lighting that "gets by" on dull days may not be at all satisfactory on a night-after-night basis.)

6. Are safety rules enforced? If no night nurse is on duty, have arrangements been made with local doctors and hospitals to care for injured workers? Does at least one night-shift worker know first aid?

7. Are shifts scheduled so they overlap office hours? (Good idea: Have second shift start before office closes, third end as office opens.)

8. Do cost figures give the true story on night production and efficiency? (What about losses owing to lowered quality, misuse of machines, extra lighting, high rates of absenteeism and turnover, etc.?)

9. To help keep track of costs, are scrap and reject percentages on night shifts checked frequently and compared with day-shift performance?

Modern Industry, January 15, 1948, p. 40:6.

An Effective Guaranteed Employment Plan

A CONTINUITY of employment or minimum force agreement, whereby an average of about 2,500 repair and equipment maintenance workers currently have year-round job security, was negotiated between the management of the Seaboard Air Line Railroad and the Federated Shop Crafts (System Federation No. 39, Railway Employees' Department, AFL) in 1928. The plan, unique in the railroad industry, is administered jointly by management and union. In the 19 years of its operation, the designated number of employees in the minimum force reached its highest peak in 1947.

The purpose of the plan was to eliminate extreme fluctuations in employment resulting from inadequate budgetary provision for maintenance and repair work. With the inauguration of a minimum workforce, the company in effect pledged itself to plan its work more evenly.

The agreement which became effective in 1928 guaranteed that "a minimum force of [a specified number of] positions [then, 2,170] will be continued from month to month during the entire [contract] year" at each terminal point over the Seaboard system. Similar agreements have been negotiated each year since that date.

Included among the minimum force positions were the various occupations represented by the Federated Shop Crafts: machinists, boilermakers, blacksmiths, sheetmetal workers, carmen, electrical workers, their respective helpers and apprentices, and coach cleaners. For workers in these occupations, the number of jobs in the minimum force and the workers' seniority are the only limitations determining coverage under the plan.

At the request of management, the 1930 agreement was modified to provide for a minimum number of positions in each classification, for the entire system, instead of a minimum number of employees for each terminal point. These positions could then be transferred from point to point and from city to city, and, in filling them, workers were to be furnished transportation by the company for themselves, their families, and household effects. Subject to seniority rules, and after agreement between management and union, employees could be transferred from one shop to fill vacancies in another. No interchange of classifications, however, was contemplated.

Following a decline in operating revenues, the 1931 agreement was modified, at the request of management, to include a clause which gave each party the right to initiate a review of the number in the minimum workforce at any time after January 31.

The number in the minimum force has been changed 13 times at the beginning of the year and three times in the middle of the year. One of these mid-year changes (August, 1940) involved an increase in the minimum force; two (1931 and 1938) involved decreases. Company and union officials point out that mid-year revisions were made only when special circumstances made it necessary and were preceded by conference between the parties, as specified in the minimum force agreement.

During slack periods, employees not in the minimum force are laid off in order of seniority after five days' notice. When in any shop further reductions have been necessary, the company's practice has been to present the situation to the workers and ask for their decision on whether to lay off more men or to reduce the number of days specified in the agreement.

The Seaboard line has had no strike of serious consequence among the shop crafts since 1922—a fact attributed by company officials to its labor policy.

Great significance is attached by management and the union to the fact that the plan removed decisions concerning furloughs and layoffs from the hands of local shop superintendents or supervisors, and that negotiations had to be carried on by management and the union at the top level. Both management and labor state that the plan has been advantageous for all concerned. The company saved money, productivity increased, and labor turnover and training costs decreased. Employees' annual earnings increased and the spread of work induced greater regularity of employment and wages.

—JOHN L. AFROS in *Monthly Labor Review* 8/47

MARKETING MANAGEMENT...

Eight Pointers on Hiring Salesmen

EXPERIENCE shows that it costs from 10 to 100 times as many dollars to *fire* a *misfit* salesman as it does to *hire* a *satisfactory* man—even if, in the hiring, you employ all the steps which modern sales personnel practice recommends. And this over-all estimate makes allowance for only two types of costs—training expense and salary. To this figure should be added the cost of supervision, the profit on lost orders and lost customers and the decline, if any, in the over-all sales effectiveness of the group, as a result of having "one bad apple in the barrel."

Presented here are eight pointers that will help the sales manager eliminate these losses, improve his selection procedures.

1. *Get a pool of applicants large enough to contain one or more good men.*

Find out from past performance your ratio of men hired to men interviewed. Then, through systematic recruiting, obtain a pool sufficiently large to permit elimination of the unfit through the progressive steps of the screening process, leaving several acceptable applicants to choose from. If your hiring history shows, for example, that you ordinarily find only one man out of 19 applicants worth hiring, it would be mathematically unwise to expect to find a similarly good salesman in a pool of only 10 applicants.

2. *Have a hiring blueprint and specifications which define what you want to buy!*

Make a thoroughgoing job analysis of the salesman's job in your company; write up that analysis in narrative form, thus turning it into a job description. This must then be coordinated with other information and boiled down into a detailed and formal job specification. This is not so easy as it sounds. It will unearth many disparities in sales methods, numerous unclarified policy questions, even some areas where lack of knowledge on the part of the sales manager himself may hold up the analysis temporarily.

3. *Know your company's peculiar success-and-failure patterns, and use the success pattern in hiring new men.*

Make a statistical analysis of the application blanks of the men who have been hired in the past several years (preferably prewar), a study of those who succeeded and also of those who were separated.

Next, all men presently on the force must be rated, both quantitatively and qualitatively, by at least three executives who are fairly familiar with their work, after which three ratings should be reduced to a single composite appraisal. Then all the men on the force should be tested with a battery of psychological tests which should include a test of *sales judgment* and *attitude toward selling.* Statistical analysis of the test scores must be made, comparing the results of the top 25 per cent of the men—those who are best—with the lower 25 per cent of the men—those who are poorest.

When this study has been made, the sales manager knows what pattern of

interests, abilities, personality characteristics, and adjustment to life and business characterizes his best men, and likewise his poorest men. More important, he knows what attributes are most significant in differentiating his best men from his poorest.

4. *Put each applicant through all the steps in the complete selection procedure. Make no exceptions.*

The selection procedure should start off with an application blank or personal history record—a questionnaire designed to glean *all necessary facts* about the applicant. Many sales managers of the modern school then use a simple, but carefully planned, evaluation blank, which aids them in systematically appraising the information on the personal history record. After this evaluation of the application blank, the sales manager will have available a well-planned analytical interview, in which he extracts further facts about the applicant's home life, school experience, economic situation, etc.

After the applicant has passed the preliminary interview, has filled out the application blank, had it evaluated, passed the hurdle of the patterned analytical interview, he is then ready to have the battery of psychological tests administered. When the test report is received back from the test administrator, it should be read carefully, its recommendations considered, and then it should be added to the other evidence of the applicant's qualifications—or lack of them—for the job.

Finally, the sales manager or his assistant should call in person to see the former employers where possible; where this is not feasible, he should then telephone, even if this necessitates a long-distance call. In contacting them, he should always ask: "If you had an opening, would you re-hire this man?", and follow up the reply—no matter what it is—with: "Why?" This inquiry often brings more information than all others.

5. *Hire on the basis of the applicant's whole picture, not merely one part of it.*

For example: An applicant may have outstanding experiences in a similar line, or with a highly successful competitor. Without weighing the other factors, without checking with the previous employer—the man is hired. His weaknesses, which are many—so many, in fact, that they caused him to be fired from his last job—are overlooked.

6. *Judge each attribute by its proper yardstick—don't try to measure abstract qualities in an interview.*

Almost every interviewer will seek to decide from an interview whether an applicant is honest, industrious, and loyal. But these are abstract qualities which cannot be discovered in an interview. Conferring with former employers and checking on the character and credit report are the only dependable sources of information concerning such qualifications.

7. *Don't oversell the job to the applicant. Let the applicant sell himself to you.*

If you make the applicant get on his mettle and tell about himself, you end up with more facts and a better interview.

8. *Don't try to hire men who are too good for the job.*

It is universally assumed that when a company has an extraordinarily high rate of turnover, they have not been hiring good enough men. In many cases, however, the exact opposite is true—*they have been hiring men who*

are too good. Remember, not every sales job calls for the highest mental ability, the greatest drive and ambition, or the highest earning capacity.

The sales manager who observes these suggestions will hire more good men and fewer failures. He will cut his turnover costs, and he will augment his own reputation as a manager who knows how to pick men.

BY BURTON BIGELOW. *Industrial Marketing,* November, 1947, p. 33:4.

Use of Salesmen in Product Betterment

IN the days of the village smithy, a customer went to the blacksmith, told him he wanted a strap iron bracket that wouldn't buckle under constant vibration, and called the next day for a hand-wrought replica of the free-hand drawing he had scrawled on a piece of wrapping paper. To the technical service department of the National Cylinder Gas Company, the salesmen in the field serve as personal blacksmiths who talk over the customers' problems, report to the factory, personally deliver the new equipment, and study its application to the job at hand.

Salesmen, through preliminary interviews, establish the features the customer would like to see incorporated in a piece of equipment. These specifications are forwarded to the technical service department, and thence to the engineering department if major changes are involved.

To make doubly sure the newly designed product is "right" before beginning mass production, it is field-tested under actual operating conditions in a plant selected by the salesman.

After thorough testing in the NCG lab, the new equipment is forwarded to the selected test plant. The salesman receives complete operating instructions, and is told what to expect of the product. Every 30 days he visits the test plant, interviews everyone who has had any contact with the product, and makes a report to the home office. Testing periods run anywhere from a few weeks to more than six months, depending on the nature of the product being tested.

When testing is deemed sufficient by NCG, the salesman calls at the plant, writes his final report, and returns the product to the technical service department for inspection. If "bugs" are still present, the necessary changes are made and the test starts over again. If all comments from the test plants are favorable, the product goes into production.

—Manufacturers' News 10/47

Best Sales Bets for 1948

THE United Business Service sales barometer shows new orders still declining, having fallen from 276 in January, 1947, to 220 just before the start of the holiday season. Production, plotted on the same chart, is holding at about 170. Thus the gap between the backlog of new orders and the rate of production is steadily closing. If this trend continues, the time may not be too far off when we will have to contend with a price war.

One way in which a company may protect its position is by concentrating effort on markets offering best sales prospects. Top of the list comes the farm market, still going strong. The nine cities having better-than-average prospects, according to United Business Service, are: (1) South Bend; (2) Youngstown; (3) Detroit; (4) Tulsa; (5) Houston; (6) Memphis; (7) Duluth; (8) Davenport; (9) St. Joseph.

—Dartnell News Letter

How to Handle Inquiries Effectively

SOME pat suggestions on the "care and handling" of inquiries, put forth originally by *Tell,** should prove of value to marketing executives. Here they are:

1. *Make sure all inquiries actually reach you.*—Careful instruction on how to identify inquiries, and why it is important to get them promptly to the person whose job it is to handle them, should be given to those who open the mail. If you key your advertising, make sure the key system is understood by all clerks and others who handle your communications.

2. *Check every inquiry for quality.*—An inquiry is good only if it comes from a potential customer—whether a company or an individual. Remember, many medium-sized firms are excellent buyers. And there are a number of organizations that are small today but will be bigger next year. Further, do not be deceived by individuals' titles. Many an inquiry from a top executive is written by a subordinate.

3. *Qualify inquiries for follow-up.*—It is good policy to determine whether an inquiry should be turned over to the sales department at once or followed up by mail. When inquiries are sent along to salesmen, all available information on the account should be sent also.

4. *Keep accurate records and analyze them.*—When you have analyzed your inquiries, your records should show: (a) how many inquiries you receive and source—how many good and how many not good, (b) how many inquiries worth sending to salesmen, (c) how many developed into sales, (d) how much these sales totaled.

5. *Inquiries can reveal many things.*—Inquiries help to take the guess out of many factors in advertising. For example: You can test which type of executives and companies respond best. You can determine what kind of copy draws best. You can check which publications are most effective in reaching more of your prospects.

Sidelights on Promotional Preferences (Edward Stern & Co.), November, 1947.

* Published by Marketing Publications, Inc., 130 West 42 St., New York 18, N. Y.

Output per Person in Trade Increasing

THOSE occupationally classified as trade* are frequently berated for their "inefficiency." Despite this fact, however, output per person occupied in trade is shown (by statistics appearing in the Index of Manufacturing Output, published in 1940 by the National Bureau of Economic Research, and in the Federal Reserve Board's Index of Manufacturing Output, published 1943) to have advanced by as much as 51 per cent over the period 1900-1940. This specific advance means that in 1940 the output of services for each unit of labor was 51 per cent greater than in 1900. The significance of this change can be viewed also in terms of the ratio of input to output: For 1940 this ratio was 66 per cent. This means that a given

* Those who sell goods and/or services (according to the U. S. Census)—the criteria of classification being occupational function, not industrial attachment—and those clerical workers who are oriented about selling since it is their function to assist those who sell.

unit of marketing services was being produced in 1940 with 34 per cent less input of direct labor.

The estimate of the output of trade services and of trade employment and the resulting index of output per person are shown below:

Year	Index of Output of Trade Services	Index of Employment in Trade	Index of Output per Person
1900	100	100	100
1910	165	128	129
1920	237	163	145
1930	305	227	134
1940	412	272	151

The movement in the index, however, has not always been "forever upward." The decade of the 1920's marked an important setback, as is well evidenced by the fact that the 1930 level was less than that for 1920. The recession in the index between 1920 and 1930 is statistically due to the more rapid advance in labor input than for services produced. Employment increased just under 40 per cent in this decade, which is by far the greatest advance for any decade of the period considered. From 1900 to 1920, the index grew rapidly, but the recovery from 1930 to 1940 has been less rapid.

—R. R. Giffin in *The Journal of Marketing* 10/47

Catalog Distribution

WHETHER you invest $1,000 or $100,000 in a catalog, it may well be the most important single piece of industrial literature you issue this or any other year.

Averaged as a group, catalogs are costly. Their preparation entails more detail work and expense than most other forms of industrial literature.

These facts naturally make more important the effective, economical distribution of catalogs. The list of executives to whom they should be sent is your first consideration; but the *method of distribution* also has a vital bearing on the returns from your investment in a catalog.

The experience of the Chicago Pneumatic Tool Company is a case in point. While their latest catalog—an elaborate job—was being printed, the firm's advertising executives sought to determine the best methods of distribution.

On the basis of research findings and the company's previous experience (making allowances for special factors influencing current operations), the following points were considered and handled as indicated:

1. *Should an advance mailing announcing the catalog be made?* Research findings show that an advance mailing may increase the recipients' interest in a new catalog when it arrives at their desks. However, in this case, desire for the new catalog was known to be at high pitch, so there was no need to increase interest. Thus an advance mailing would serve little constructive purpose, and was not used.

2. *Should catalogs be mailed or delivered by salesmen?* A survey of purchasing agents revealed that they prefer mail delivery to personal delivery. This preference, however, may be caused by: (1) a buyer's desire to see a salesman only when he has a better reason for making a call; or (2) his reluctance to impose on the salesman's time though the buyer might appreciate this special service The possible procedures considered included: (1) testing deliveries both ways; (2) being guided by practicability of personal delivery in each case; (3) employing both methods, taking into consideration the salesman's relationships with his own customers.

The procedure adopted was personal delivery to most customers, mail delivery to prospects.

3. *Should duplicate catalogs be sent to key men other than the buyer?* Research showed that it is frequently profitable to supply duplicates rather than to make savings by effecting minimum distribution. The company acted in accordance with this finding by supplying duplicate catalogs to all who requested them.

Chicago Pneumatic Tool has found the method adopted highly satisfactory.

—*Sidelights on Promotional Preferences* (Edward Stern and Company, Inc.) 2/48

FINANCIAL MANAGEMENT...

The Capital Expansion Boom

INDUSTRY'S postwar expansion program still has at least another year to run. At the most, 1948 expenditures on new plant and equipment will not drop more than 8 per cent below 1947's record $16.1 billion. Chances are the drop will be much smaller than that—probably not more than $300 million altogether. With capital expenditures continuing at this breakneck pace, all business is practically certain to keep on booming through most of 1948. In other words, the long-heralded postwar recession doesn't show up on this year's calendar.

These are some of the main conclusions that stand out from the comprehensive survey of a representative cross-section of business in 95 cities just completed by the Department of Economics and the Research Department of the McGraw-Hill Publishing Company. As a result of this survey of capital expenditures, we can get our first look at some of the critical factors that lie inside one of the greatest blind spots in economic analysis and forecasting—industry's capital expansion plans.

Here is what the final results of the survey show:

1. Industry's postwar expansion program is not yet complete, despite the staggering expenditures of the past two years. A weighted average of manufacturing companies shows that their programs were 64 per cent finished at the end of 1947. By the end of 1948, manufacturing executives expect to bring this up to 85 per cent. In other words, their programs are due to run through most of this year without a letup.

2. Business spending on new plant and equipment in 1948 will be somewhat less than in 1947. But even on the most cautious assumptions the drop will be comparatively small.

At the time of the survey, many companies—in manufacturing, approximately 40 per cent—had not approved their capital budgets for 1948. Even assuming these companies will spend nothing for new plant and equipment this year, we get a total figure of $14.9 billion for capital expenditures by business in 1948. This would represent a drop of about 8 per cent from the $16.1 billion level of 1947.

It is more realistic, however, to assume that companies that were undecided at the time of the survey will reduce their spending in 1948 in the same ratio as the companies that had set up their capital budgets by that time. On this basis, industry's capital expenditures in 1948 would run close to $15.8 billion. This would be a decline of less than $300 million from the 1947 level, a negligible amount in comparison with the total.

3. Neither a business setback nor a rise in wage rates would make any great difference in total spending for new plant and equipment this year. More than two-thirds of the manufacturing executives said they would not cut their capital budgets if business ac-

tivity declined 20 per cent. And 57 per cent said they would not change their plans in the face of a 15 to 20 per cent rise in wage rates. A good 26 per cent actually said they would increase capital expenditures if wages went up again; only 17 per cent said they would cut.

4. Most executives, however, are figuring on a sizeable rise in sales this year. A full 57 per cent of the manufacturing companies expect 1948 sales to top 1947 by at least 10 per cent. Only 9 per cent are looking for a drop in sales. About one-third think sales this year will be the same as 1947.

5. Either current earnings or reserves and surplus accumulated out of past earnings will provide by far the greatest source of money for capital expansion. This is especially true in manufacturing. On the average, profits, reserves, and surplus will supply 84 per cent of the funds that manufacturing companies put into new plant and equipment this year. Railroads and utilities, however, will have to lean heavily on commerical bank loans or on new security issues.

6. On the basis of present plans, expenditures on new plant and equipment will drop sharply in 1949. The capital programs of manufacturing companies will be 85 per cent complete by the end of 1948. Most companies have not yet laid any definite plans for 1949. But if the ones that have plans are typical, total spending on plant and equipment in 1949 will drop by perhaps as much as 25 per cent.

7. When postwar expansion programs are complete, manufacturing capacity will be about 50 per cent greater than it was in 1939. Some 31 per cent of all manufacturers expect to double their capacity or more. Only 23 per cent will not have more production capacity than they had in 1939.

Since 85 per cent of the postwar expansion is slated for completion by the end of 1948, most of this new capacity will be in operation by 1949. Hence, next year could bring a rapid increase in production that would wipe out bottlenecks and fill the shelves with many still scarce items. Whether consumers will be in a position to buy this increased production will depend on the whole economic picture at that time. And one of the main factors determining the general economic situation will be the rate of capital expenditures. If the rate slides down considerably, this factor could pull down the over-all level of business activity.

Business capital expenditures are one of the most important and most unstable elements in our economy. In the past, the swings in capital outlays always have coincided with the swings in employment, income, and production that make up the business cycle. Capital expenditures, of course, vary much more widely, percentage-wise, than general business. But the pattern has been the same.

Given a fair idea of how much business will spend on new plant and equipment, we can put together a reasonably accurate picture of the outlook for the economy in the coming year.

We know there will be a big export surplus next year, even if Congress pares down the European Recovery Program moderately. The only thing that would prevent this would be the complete scrapping of the Marshall Plan—and that doesn't seem to be in the cards.

We know that government spending will continue around present levels. Congress may lop something off President Truman's budget for fiscal 1949, but the cuts won't be large enough to

make any difference to the economy as a whole.

We can be reasonably sure the building boom will continue through 1948.

We don't know just how much consumers will spend in 1948. But we do know that what they spend will depend in large measure on what happens to their income. And we know that by far the most important factor influencing consumer income will be the level of capital investment by private business.

Adding up all these factors and taking a look at the results of the survey of capital expenditures, we can draw some conclusions about 1948:

Production will keep on booming. As materials supplies ease and productivity improves, output will edge upward. New capacity coming into use this year will help.

Employment will continue to set new peacetime records. Next summer may see the 61,000,000-job mark passed. High employment will mean continued pressure for higher wages.

Prices will stay high and probably continue moving up. Higher personal incomes will put more upward pressure on prices. There is still a chance that the rise may be smaller than it was in 1947. Much depends on the weather. With fairly good crops, food prices could stabilize or decline slightly.

There are plenty of things that could change this picture, of course. For instance, government monetary authorities might check the boom—or smash it—by tightening up controls on bank credit. Or there might be one of those unpredictable shifts in business and consumer psychology that mark the turning point in a trend.

But that's how the picture looks now. It is a picture of a boom still going full blast. And the odds are against anything changing it during the coming year.

Business Week, February 7, 1948, p. 65:8.

How Will Another Wage Increase Affect Prices?

WILL another round of wage increases bring further price increases, or will industry be able to absorb higher operating costs *without* a price rise? To find out, *Mill & Factory* conducted a survey among all types and sizes of manufacturers. Here are the results:

Ninety per cent of the respondents state that if employees were to receive a 15 cents per hour wage increase they would have to increase the selling price of their products. Sixty per cent of that group say the increase would be under 10 per cent, and 37 per cent would have to increase prices 10 to 20 per cent.

Of the 10 per cent of respondents who state they would not have to increase selling prices, 64 per cent give as a reason that they would absorb higher costs out of profits. Improvements in plant productivity which would offset higher costs, and reduced operating costs in other ways were other major reasons cited for not increasing selling prices.

Increased wages are not reflected in increased labor productivity, 92 per cent of the respondents state.

According to 48 per cent of those answering the survey, productivity of employees is lower now than prewar. Ten per cent believe that productivity in their plant is now higher than prewar.

Sixty-four per cent of the respondents say they do not believe that productivity of employees will increase during the coming year.

—*Mill & Factory* 1/48

Puerto Rican Tax Haven

PUERTO RICO has been bitten by the industrialization bug. The crowded little U. S. sugar colony in the Caribbean is spending millions of dollars to subsidize the establishment of new industrial enterprises, and U. S. rum drinkers are helping foot the bill. The Bureau of Internal Revenue has returned to Puerto Rico as much as $63 million of rum excise taxes in a single year, and the ingenious islanders are using this and other money to promote industry. They have formed an Industrial Development Company (P.R.I.D.C.) to erect plants and perform services for approved private companies, and have set up a Development Bank to advance money to industry on easy terms. Last summer they took the final step and established Puerto Rico as the only place under the American flag where new business can operate without paying taxes of any sort.

The insular government declared a "tax holiday" exempting 41 categories of manufacture and most "new" enterprises from all insular property, excise, and income taxes for seven years, with partial exemptions extending for three additional years. Since Puerto Rican corporations are not subject to U. S. federal income tax, this means, in effect, that firms setting up on the island will pay no taxes for the duration of the "holiday." An American firm has only to organize a Puerto Rican subsidiary, and convince the island's Executive Council that it qualifies for the preferential tax treatment. The tax-free earnings of the subsidiary can be used for capital expansion or for any other purpose that the parent company sees fit. If the earnings are returned to the United States, of course, they are subject to U. S. income tax (unless a tax-free liquidation or some such device is successfully employed), but there is still a net advantage because the Puerto Rican earnings are not pared by the other levies to which domestic profits are subject.

U. S. business men have been quick to take notice. Cargill, Inc., the Minneapolis grain firm, has agreed to establish a soybean and coconut processing plant. Textron is setting up a 25,000-spindle print-cloth mill; Newberry Mills, an 18,000-spindle mill. Earl Crane, of Iroquois China Co., has signed a contract to build a chinaware factory; the Charms Company has acquired an interest in a Puerto Rican candy concern. All these firms will realize substantial economies other than tax savings—e.g., Textron estimates it will obtain textile labor for 37 cents an hour less than it must pay in the South, while Cargill hopes to save $450,000 annually in freight charges.

—*Fortune* 2/48

Employee Stock Purchase Plans

FOR the first time in several years—in fact, since the beginning of World War II—companies are again offering stock purchase rights to their employees.

The American Telephone and Telegraph Company has inaugurated a stock purchase plan through which 2,800,000 shares of capital stock are made available to employees of the company and its subsidiaries. Employees with six months' or more service are eligible to participate.

Eligible employees may elect to purchase one share of stock for each full $500 of their annual base rate of pay, but none may buy more than 50 shares. Payment will be made at the rate of $5 per share per month, by payroll deductions, and must be completed not later than May, 1950. Interest will be credited on installment payments at the rate of 2 per cent per year, compounded semi-annually.

Under a plan established in 1947 by Sun Oil Company, eligible employees allot amounts up to 10 per cent of their basic pay into the plan's funds. For every dollar so set aside, the company adds a 50-cent contribution, likewise paid into the plan's funds. The resulting sums are used by the trustees of the plan to purchase Sun Oil Common Stock.

The plan is for a five-year term, all payments by the employees and contributions by the company to be made the first year. Stock purchased by amounts so obtained is kept by the trustees for the remaining four years and then distributed among employees who remain in the plan.

Enrollment in the plan is open to all employees with one year's continuous service with the company or its subsidiaries.

—*Industrial Relations Service* (The Dartnell Corporation)

Salary Continuance Plans Accompanied by Life Insurance

MANY executives find today that the personal surtax rates so reduce their incomes that it is difficult, if not impossible, for them to accumulate enough capital to insure an adequate retirement income.

Where a company maintains a pension plan qualified under Section 165 of the Internal Revenue Code, the income tax rules are very favorable with respect to the participants. Though the employer makes contributions for the employee's benefit, there is no income tax liability at the time the contribution is made, notwithstanding the fact that the employee's rights are nonforfeitable. Income tax liability is deferred until the benefits are actually distributed. Even in some cases where such a plan is maintained, however, the key-executive group feels it does not provide adequate income, and they desire to augment the benefits with some type of collateral plan.

It is possible to formulate a program to obtain this tax objective for the employee by means of an employment agreement that will provide incomes after retirement for the key-executive group under a non-qualified plan. The plan can also include provisions whereby pension benefits will be paid a widow if the employee's death occurs while he is employed by the company. However, the plan to be discussed here differs from a qualified plan in that the employer obtains no immediate tax deduction; the major tax objective is to defer income tax liability to the employee until such time as the retired employee, or his widow, as the case may be, actually receives benefits. It is of equal importance, however, that the agreement does not provide benefits in such manner that the accrued value of future benefits can be taxed to the employee in the year of retirement under the constructive receipt theory.*

Such income tax results are achieved principally because of the nonvesting of rights prior to attaining retirement age. Where employment is severed prior to attaining the retirement age specified in the agreement, the benefits are forfeitable. Consequently, the plan does not serve as a suitable substitute to be formulated in lieu of salary increases, or contemplated salary increases. Moreover, reducing salary in consideration of forfeitable benefits becoming vested at some future period, is, obviously, not a sound practice. The plan, however, is particularly adaptable where it is desired to provide some form of benefits *in addition to* the other compensation paid prospective participants. The objective, therefore, would be similar to that sought through the installation of a qualified pension, or profit-sharing plan, i.e., to reduce turnover, improve morale, and perhaps of even greater importance, commence immediately to plan for the day when superannuated employees must be paid incomes.

In cases where an employment agreement of this general character is executed, the employer frequently purchases life insurance upon the life or lives of the employees involved. The purpose of the life insurance is twofold: (1) it provides an offset against amounts becoming due a widow of a deceased employee; (2) it serves as a depository for purposes of amortizing

* The constructive receipt doctrine can be applied where compensation is credited to a taxpayer without substantial limitation or restriction as to time, manner, or condition upon which payment is made. The mere fact that withdrawals are not made is immaterial.

the employer's cost in the event the employee lives to retirement age while in the employ of the corporation and becomes entitled to retirement benefits.

1. The employee has no vested rights at any time prior to attaining the retirement age specified in the agreement.

2. If employment is severed prior to retirement age, whether by the employee's own volition or by the employer for proper cause, the employee forfeits all benefits.

3. The widow's benefits become vested only if the employee's death occurs while he is employed.

4. Payment to the employee or the widow must flow directly from the employer. If life insurance is owned by the employer upon the employee's life, the incidents of ownership therein should remain with the employer. If the policy is transferred or assigned to the employee in the year of retirement, it would likely be construed as additional compensation in the one taxable year, the value of which would be measured by the replacement cost of similar benefits.

5. Benefits should be available to the retired employee only from month to month. The employer's payments come from current income. Segregating corporate assets, in excess of the actual monthly benefits, would result in additional income tax liability where actually or constructively received.

6. Arranging benefits on a month to month basis precludes the possibility of taxing the employee in the year of retirement upon the accrued value of the payments guaranteed in the future. As a further safeguard against this remote possibility, the agreement should preclude the employee, or his widow, from having any rights as a creditor in the event of insolvency.

7. The employee can agree to serve in an advisory capacity after retirement and also agree to refrain from entering the employ of a competitor while receiving retirement pay. These two factors can be utilized in the agreement or ignored, if desired. Their purpose is to make all payments contingent upon rendering some personal service or not going to work for a competitor, in order to assure avoidance of income tax on the accrued value of future guaranteed payments in the year of retirement. Because the nature of the agreement precludes the possibility of a tax of this type anyway, these two factors are of no importance, unless the employer has some practical reasons for inserting them in the agreement. In many, if not most, cases, such conditions probably would be better eliminated. Moreover, obligating the employee to serve in an advisory capacity would probably result in forfeiting old-age Social Security benefits because he would be considered in employment paying more than $15 per month.

8. In determining benefits, the test of reasonableness should be applied within the best judgment of all concerned. Benefits payable for life either to the employee or a widow appear too speculative for the average smaller employee. In determining the amount of benefits, perhaps an amount equal to one, two, or three years of present salary, payable over five or 10 years, might be suitable.

9. Where life insurance is taken out, it should be an entirely separate transaction from the employment agreement. The insurance should not be tied in with the actual agreement, nor should the insured employee own any of the incidents of ownership. The policy should be applied for and owned exactly as key-man insurance, with all the rights of ownership vesting in the employer, and the corporation, not the insured's wife, should be the beneficiary.

When the employer purchases life insurance upon the life of an employee, it is imperative that the insured possess no incidents of ownership in the policy. The life insurance is merely the employer's financial medium for purposes of offsetting a contingent business expense should he become obligated to pay amounts to the employee's widow. It also serves as a method for commencing immediately to amortize the cost that will be incurred in the event the employee becomes entitled to retirement benefits under the terms of the employment agreement.

The resolution of the Board of Directors authorizing the purchase of life insurance should express the insured's value to the corporation, reciting the reasons why the corporation should be indemnified in the event of death. Consequently, the insurance is purchased in exactly the same manner and procedure

as key-man life insurance for purposes of indemnification, irrespective of the formulation of the contingent liabilities contained in the employment agreement.

In the event of death, the proceeds would be paid directly to the corporation constituting a corporate asset to be dealt with as the company sees fit, but having no direct connection with the employment agreement.

The premiums paid for life insurance issued upon the lives of employees are clearly not deductible for income tax purposes. The employer, as owner and beneficiary, is not allowed any tax deduction for premiums paid.

The employer is entitled, however, to a tax deduction for amounts paid to the retired employee, but such deductions are postponed until amounts are actually paid to the employee when he retires, or to the widow after the employee's death. The tax regulations regard such payments as an ordinary and necessary business expense. It is also well settled that a deduction can be taken in the current year for services rendered in the past. Payments to an employee after retirement constitute compensation for past services rendered and, if reasonable in amount, are deductible as ordinary and necessary business expense.

From an address by Raymond W. Hilgedag before the New York University Sixth Annual Institute on Federal Taxation.

Why It Pays to Qualify a Pension Plan

AN EMPLOYER'S contributions to a qualified pension plan, if they do not exceed certain prescribed limits, are deductible for income tax purposes. In addition, the interest earned by a qualified pension fund is non-taxable income. It is the purpose of this presentation to show the importance of these two features in a comparison of *the time required* to fund a given liability with a given amount of annual contribution—first in a qualified plan, then in an unqualified plan.

A "qualified" pension plan is one that has been approved by the Bureau of Internal Revenue in accordance with Section 165 (a) of the Internal Revenue Code. An "unqualified" plan is one maintained without such approval. The fund, under an unqualified plan, is sometimes shown as a reserve on the employer's books, and theoretically is subject to recapture for other purposes at any time. Actually, it is doubtful whether such freedom of action really exists, since the importance of good industrial relations places almost as much restraint on management as if the funds were held in an irrevocable trust.

The following discussion assumes that two identical corporations are planning to meet the cost of pensions for "past service" (services of employees preceding adoption of a pension system). Employer A has a qualified plan, Employer B an unqualified plan.

The present value of all past-service benefits has been estimated at $1,800,000 for each plan. In other words, if a lump sum deposit of $1,800,000 were made immediately, that amount plus interest earned thereon would provide for all estimated past-service pensions. Each employer is prepared to set aside

one-tenth of this sum, or $180,000, each year until the whole cost is met.*

Let us consider the qualified plan first. Since the annual contribution ($180,000) of Employer A does not exceed 10 per cent of the initial past-service cost ($1,800,000), it is deductible for income tax purposes and the full amount *without diminution* goes into the pension fund.

Of course, interest is earned only on the amounts actually deposited from time to time, and Employer A must therefore deposit extra amounts to make up for the loss of interest due to instalment funding. Actually, this employer must make 11 annual deposits of $180,000 and a final deposit of $58,557 before the pension fund is the same size as if it had been started with a lump sum of $1,800,000.

Here is a summary:

Employer A has paid:	
To satisfy the initial liability	$1,800,000
To make up for loss of interest resulting from instalment funding	238,557
	$2,038,557
The Fund has earned:	
Interest on deposits..........	382,243
Making a total of........... at the end of the twelfth year	$2,420,800*

* Interest on an original lump-sum payment of $1,800,000 at 2½ per cent compounded annually would amount in 12 years to $620,800, which would increase the original sum to $2,420,800.

Now, what happens to Employer B, whose plan is not qualified, and who must therefore pay income taxes, *not only on the annual contributions but also on the interest earned by the fund?* It is a fact often overlooked that the 38 per cent corporate income tax reduces a 2½ per cent interest rate to a net of 1.55 per cent. At the end of the twelfth year, Employer B has paid $2,160,000 ($121,443 more than Employer A), yet his pension fund amounts to only $1,495,963 ($924,837 less than Employer A's).

Here is a summary:

Employer B has paid:		
12 annual contributions........		$2,160,000
The Fund has earned:		
Interest on deposits............		230,481
		$2,390,481
Less:		
Taxes on Contributions	$820,800	
Taxes on Interest Earned	73,718	894,518
Total in Fund at end of twelfth year		$1,495,963

So, Employer B must continue to make his annual contributions. Actually, the twin taxes on contributions and interest earned *double the time required for funding;* instead of 12 years, it takes 24 years to amortize the cost. Employer B must pay $180,000 per year for 23 years and $117,909 in the final year, making a total of $4,257,909. (Employer A paid only $2,038,557.)

Here are the figures:

Employer B has paid:		
Total contributions..........		$4,257,909
The Fund has earned:		
Interest on deposits.........		944,562
		$5,202,471
Less:		
Taxes on Contributions	$1,618,005	
Taxes on Interest Earned	328,759	$1,946,764
Total in Fund at end of 24th year		$3,255,707*

* Employer A's fund of $2,420,800 at the end of 12 years will accumulate with interest at 2½ per cent compounded annually to this same figure of $3,255,707 at the end of 24 years.

Furthermore, Employer B's taxes ($30,175 in the 25th year) on interest earned would increase annually thereafter.

Central Hanover Pension Bulletin.

* To make the example as simple as possible, it is assumed that no part of the past-service fund is needed for pension payments during the period of accumulation, and that the number of employees who die or leave the company's service is about the same as originally estimated. It is assumed, also, that interest is earned at 2½ per cent and is compounded annually. Corporate income tax is computed at 38 per cent throughout.

INSURANCE...

Problems of Retrospective Rating

RATING problems under the new regulatory laws are only beginning. Some of these problems were underlined recently in an address by Lewis F. Miller before the Mid-West Insurance Buyers Association. The point set forth in the S.E.U.A. decision, Mr. Miller said, is that insurance is interstate commerce. Under this new concept, the National Council on Compensation Insurance has introduced a program of interstate experience rating designed to give the insured the benefit of his over-all experience and lessen the possibility of a penalty in states where he may have a small risk involved but suffers a maximum rate because of poor experience. The fallacy of this program, however, lies in the fact that it applies only to states under Council jurisdiction which approved it. In a state which falls outside the pale—as several states do—an insured may either have too little premium to qualify for rating or may have to accept experience under that state's individual plan. Thus the insured is not getting the desired effect of interstate rating.

The failure of a few states to accept interstate experience rating not only destroys most of its value for the risks which would benefit from it but also prevents the insurance business from taking on a true interstate commerce aspect.

Mr. Miller discussed retrospective rating and gave a brief description of plans A, B, and C. As is the case with experience rating, he pointed out, the fact that certain states do not conform to a uniform interstate plan has acted to penalize the insured. Instead of being able to obtain retrospective rating factors commensurate with his over-all size, the insured has to accept a variety of plans if he operates on a multi-state basis.

Citing as an example a $10,000 premium risk with $7,000 in four states under the Council interstate plan and $3,000 in a state that did not approve the plan, Mr. Miller pointed out that the insured would have a higher average basic and minimum premium than would have applied if a single plan could have been used.

Plan D was described by Mr. Miller as an optional interstate rating plan whereby automobile and public liability may be lumped together with compensation to give the effect of a larger risk. This increase in risk size gives the insured a break on his basic and minimum charges, and is more flexible in operation.

Plan D, however, also must meet the various state requirements, and in some states it has gained approval only for workmen's compensation, or for third-party lines. Again under plan D there is the problem of states which have not approved.

Taking a $100,000 risk, Mr. Miller showed how the insured is penalized in "non-plan D" states and in states where there is a separate rating plan. For example, the insured may work out a basic of 26, a minimum of 57.5 and under a maximum of 100 for compensation. For public liability, the basic may be 30, with a minimum of 70. The

auto may have a 28 basic and 65 minimum. When all this is lumped under plan D there might be a basic of perhaps 21.5 and a minimum of 33.5. This is much to the insured's benefit. But part of this advantage is taken away if this risk operates in a non-plan D state. His premium in that state will have to take a separate plan, if eligible, or else be denied retrospective rating entirely. The result in either case will be that the attractive rating factors cannot be attained, and the final figures would run 28 for basic and a 62 minimum instead of 21.5 and 33.5.

For strictly insurance purposes, it would be more advantageous for risks to operate only in states where plan D and interstate experience rating have been approved.

The National Underwriter, January 22, 1948, p. 14:1.

Cash Prizes Promote Safety Campaign

A CAMPAIGN to encourage employees to work a million man-hours without a lost-time accident by offering $1,000 in cash prizes was launched in June by the Sonoco Products Company, Hartsville, S. C.

The campaign will last about nine months, and hours will accumulate until a lost-time accident occurs. If this happens, the campaign will start over.

Of the $1,000 worth of prizes, $700 has been set aside for the purchase of a first, second, and third prize. A total of 14 prizes will be awarded.

All employees will be eligible for the prize drawings. As the campaign progresses or is started over again because of a lost-time accident, the individual responsible for one lost-time accident will be ineligible for the drawing of the first three prizes but still eligible for the drawing of the remaining 11 prizes. If an employee is responsible for two lost-time accidents, he will be ineligible for the drawing of the first six prizes but eligible for the remaining eight; and if he has as many as three lost-time accidents, he will be ineligible for the first 10 prizes but eligible for the drawing of the last four.

A large sign erected in the plant gives the total number of hours worked without a lost-time accident.

—*American Business* 7/47

Capital Raising Plan

STEADILY rising price levels are forcing property owners to increase their fire and casualty insurance. Many insurance companies need new capital in order to handle this higher premium volume; trade estimates place the amount of new capital that was raised by fire and casualty companies in the past year at about $80 million.

The Northwest Casualty Company of Seattle, Wash., used a financing method that combined money-raising with its employee welfare program. (This company is a wholly owned stock subsidiary of Northwestern Mutual Fire Association.)

After writing nearly $5 million in premiums last year, Northwest Casualty decided to raise its capital from $400,000 to $1,000,000. The company issued additional common stock, which was bought by the parent company. Then Northwest Casualty issued 30,000 shares of $10-par, 6 per cent preferred stock. This issue was offered to active or retired employees of the Northwestern group of companies —and to no one else—at par.

Bank financing for employees was arranged by the company. Under this plan only 1 per cent down was required; the interest rate on the unpaid balance is less than half the dividend rate of the preferred. The offering was over-subscribed nearly 100 per cent.

—*Business Week* 1/17/48

Catastrophe Insurance

CATASTROPHE insurance may be defined as that insurance which protects the assured only against huge losses resulting from single disasters which may happen, but are not expected to happen, during the currency of the policy.

The distinguishing characteristic of catastrophe insurance is that it does not protect the assured against small losses. This result is achieved by means of the "retention." Under such a policy, the insurer agrees to indemnify the assured only for the excess of loss over a certain agreed figure resulting from any single accident or occurrence. The agreed figure is called the "retention," and losses resulting from a single occurrence which amount to not more than the retention are borne by the assured. The excess of loss over and above the retention is borne entirely, or almost entirely, according to the terms of the policy, by the insurer.

It is the purpose of this discussion to deal with the utility of this type of coverage by presenting experiences of some of the large railroads that have arranged for catastrophe insurance.

There is close cooperation in the handling of claims involving the policy between the railroad and the insurers. It is rather different from the handling of claims under an ordinary public liability policy. The railroad notifies the insurers of claims made against it when the railroad believes the claims will exceed the retention. In such cases, settlements are consummated only after discussion and agreement between the railroad and the insurers. All investigation and dealings with claimants are handled directly by the railroad.

The retention, i.e., the amount the railroad must actually pay out in respect of each accident before the insurers can be called upon for indemnity under the policy, varies in different policies, sometimes from $15,000 to $100,000. The limit of the insurers' liability is sometimes fixed as high as $1,000,000 for each accident. There is no aggregate limit. The railroad, after its retention has been exhausted, continues to handle all direct dealings with claimants, and also handles litigation, but the insurers take an active interest in all settlements and litigation. This is in contrast to the handling of claims under the usual reinsurance treaty, where the reinsurer simply "follows the fortunes" of the direct writing company, and takes no active part in settlements or litigation. It is also in contrast with ordinary public liability insurance, where the insurer takes the most active part in settlement or litigation.

The cooperation clauses of these policies are not all uniform. One of them provides that the railroad shall agree with the insurers upon settlements or legal proceedings, but in case of disagreement the railroad shall determine on further settlements or legal proceedings.

One case of general interest here is in connection with a serious passenger injury, in which the claimant demanded an amount in excess of the retention. Settlement was refused, and he filed suit against the railroad. As the case approached trial, he reduced his settlement demands to an amount slightly below the retention. The railroad's counsel, feeling it was a clear case of liability, that the injuries were genuine and serious, and that trial would probably result in a larger verdict, urged the railroad to settle before trial. The

railroad was at first reluctant to do this, but finally agreed that to refuse settlement was no better than taking a poor gamble with the insurer's money, and so the case was settled.

During recent years, the railroads have been particularly plagued by high verdicts in favor of employees whose claims are most apt to come under the Federal Employer's Liability Act, under which there is no limit either for injury or death. The insurers, of course, have felt the full impact of this trend. They frequently have found themselves called upon to pay large amounts in respect of one employee, under policies which were intended to provide only catastrophe coverage. To correct this situation, it has become customary to insert an employee limitation in present-day policies whereby an agreed limit is placed with respect to each employee injury or death in calculating the loss sustained by the railroad. It is to be noted that the intention is to place the limitation in such a manner that it applies within the retention as well as above it. When this limitation is a figure that is equal to, or less than, the retention (which it usually is), the effect would be that an accident in which the only injury sustained is by a single employee could not possibly involve the policy.

The extent to which catastrophe damages may result has been shown vividly in the Texas City disaster. The amount of the losses of life and property resulting from the two Texas City explosions is not yet fully known, but we can reasonably estimate that the losses will total from $35 million to $50 million. Such a catastrophe can and does have a serious impact upon business, as respects both direct insurance and reinsurance.

In its report to its stockholders, the Monsanto Chemical Company said, about the Texas City disaster:

> The plant and contents were insured for $14,750,000. . . . As we have no estimates of reconstruction costs, we do not know how far our insurance receipts will fall short of them. In addition, the plant was covered by $7,500,000 of use and occupancy insurance and $2,500,000 of public liability insurance. Of course the loss of such an important unit will have an adverse effect on future profits although use and occupancy insurance will compensate during the coming 12 months in large degree. But the greatest loss will be in the potential profits from several derivatives . . . which we planned to manufacture and which must now await . . . the rebuilding of the Texas City plant.

That report merits close study by all corporation executives. It points up the need for a reappraisal by them of possible catastrophic losses to their corporations. It indicates that there is a valid field of risks that can and should be dealt with on a catastrophe basis.

By David J. Kadyk. *Journal of American Insurance,* October, 1947, p. 18:4.

AMA SPRING INSURANCE CONFERENCE

The Spring Insurance Conference of the American Management Association will be held on Monday and Tuesday, May 24th and 25th, at the Hotel Ambassador, Atlantic City.

The Invisible Terms in Inland Marine Insurance

THE visible terms of an inland marine insurance policy do not disclose the entire contract. Various rules of common and statutory law, applicable to all types of marine policies, limit or enlarge the benefits bargained for by the policyholder. These are the so-called "invisible terms." They cannot be known by a reading of the policy forms because their nature and variety make it impractical to incorporate them in the policies.

The "invisible terms" of the inland marine policy may conveniently be classified into two categories. In the first category are the myriad legal rules and principles which define, delimit, or extend the meaning of specific undefined expressions employed in routine inland marine forms, such as "in transit," "personal property," "all risk," "custody," "theft," "unexplained shortage" and "unattended automobile." In the second category are rules and principles which affect all policies alike, such as the rules of "insurable interest," "proximate cause" and "ejusdem generis."

Any rule in either category can broaden or narrow the scope of a policy with the same force and offset as a specific printed term. Thus they are all of importance and interest to the insurance buyer. Presented below are some specific illustrations that may be found to have broad application to many types of losses arising under inland marine policies.

One condition fundamental in every insurance contract but rarely written into any is that the policyholder will have an insurable interest in the subject matter insured. Were one who had no economic interest in a specific property permitted to insure it and receive compensation in the event of loss or damage, he would in effect be winning a wager. While wagers were at one time sanctioned in insurance law, they are frowned upon today.

According to the principle, the insurable interest of any named insured must exist both at the inception date of the policy and at the time of loss. While the insurable interest may be any "economic" interest, the most common type of insurable interest is absolute ownership. Thus if at the time of loss the policyholder is found to have divested himself of the ownership of the insured property prior to the loss, then he has sustained no pecuniary damage on account of the loss and collects nothing.

In the bailees' customers' form (laundries, dryers, and cleaners), the clothing of customers is insured against "direct loss or damage" caused by certain specifically named perils ordinarily including the peril of "burglary." Does the insurance cover the malicious destruction of clothing by burglars? It does, according to a recent Texas case (Fire Ins. Assoc. vs. Moore, 6 CCHF & C 507). In that case, burglars entered the insured's premises, removed some cash, two garments, and cut and slashed 75 other garments. The bailee's insurer accepted the liability for the stolen garments but denied liability for the garments maliciously destroyed but not removed, on the grounds that they did not constitute "direct loss" due to burglary. In deciding in favor of the claimant, the court stated:

> Said provision of the policy insuring clothing "against direct loss or damage caused by the perils insured against" is, not as narrow in scope as . . . . appellant contends it is. Of course the insurance is

limited to the direct loss or damage caused by the perils enumerated in the policy. And the perils enumerated in the policy so far as is here relevant are theft and burglary. But the peril of burglary as that term is employed in the policy is not so limited in scope as the offense of burglary as said term is defined in the penal code.

The court then pointed out that the criminal offense of burglary consists merely of the breaking into a house with a felonious or larcenous intent, but the peril of burglary in the insurance policy extends to all loss or damage to the insured property perpetrated by burglars after they have broken into the premises.

Here is an illustration of another invisible term applicable to all policies of property insurance. Property insurance policies insure against all loss or damage due not only to the immediate consequences of any insured peril but also to all other consequences "proximately" resulting from an insured peril. The distinction between an "immediate" and a "proximate" consequence may be generalized as follows: An immediate consequence is a consequence nearest in point of time and space to the cause. A proximate consequence is one which follows naturally as a result of a chain of unbroken events initiated by the cause, but which need not necessarily be the first consequence in point of time or space. To illustrate further, in case of a fire, "immediate" damage is caused by the ignition; "proximate" damage may result from heat, smoke, soot or the deliberate preventive destruction of property by firemen. The heat, smoke, soot or action of firemen are all part of a natural "chain reaction" set off by the fire. All of these types of damage are generally covered by the peril of "fire."

Even less revealing than most other described perils is the term "all risks" which appears undefined in numerous inland marine floaters. Though offhand one might imagine that the term covers all losses to the insured property, it is well established in law that it does not! For a loss to come within "all risk" coverage, all the following factors must be present:

1. The loss or damage must be fortuitous (accidental). "The purpose of the policy is to secure an indemnity against accidents which may happen, not against events which must happen." (Gulf Trans. Co. 121 Miss. 655.) Thus, the mere aging of insured property would not constitute an "all risk" loss.

2. The loss or damage must "happen to the subject matter from without," i.e., the cause must be an extraneous one.

3. The loss or damage must not be contributed to by "willful, reckless or fraudulent acts of the insured, or by his acts of bad faith, misconduct or wrongdoing."

4. The loss or damage must be due to a lawful risk. Therefore an all risk transit floater would not cover an illegal import, as no court would enforce a contract that fosters an illegal purpose.

Excerpted from a bulletin by Harold S. Daynard, published by the Inland Marine Claims Association (*The Eastern Underwriter,* January 16, 1948, p. 22:1).

Buy-Words

THERE is usually only one reason why a man buys. But a woman's reason for buying might be one of eight (so they say): (1) because her husband says she can't have it; (2) it will make her look thin; (3) it comes from Paris; (4) her neighbors can't afford it; (5) nobody has one; (6) everybody has one; (7) it's different; (8) "because . . . ."

—*The Advertiser's Digest* 2/48

Survey of Books for Executives

THE LABOR LEADER. By Eli Ginzberg. The Macmillan Company, New York, 1948. 191 pages. $3.00.

Reviewed by Ernest Dale

Professor Ginzberg's study will prove of considerable value to every executive who deals directly or indirectly with union leaders. It includes much new factual material, and it suggests techniques for analyzing leadership which will be highly useful to those who must make this their daily business. The author makes many stimulating observations, and his style is concise and eminently readable—qualities that are comparatively rare in the works of present-day social scientists.

The first part of the book is devoted to a novel analysis of leaders and leadership. Abandoning the usual clichés and tiresome statistical molehills, the author turns his knowledge of modern psychology and sociology to determining the characteristics of labor leaders and the extent to which their organizations accentuate certain qualities and neglect others. Many of his observations are drawn from the organizational theories and experience of the armed forces, the church, business, and politics as well as labor. A more detailed study of each field would be of much aid in all these areas of management.

The second part offers a factual analysis of the executive board members of 10 representative American unions, principally over the period 1900-1940. The majority of these were native-born, though a considerable number of foreign-born leaders were found in unions whose members had similar foreign backgrounds. The leaders' parents were mostly working people; their sons started as such, retaining this status for an average of 10 years. They had little formal education. They attained high office at an early age. If they were presidents, or secretary-treasurers, they enjoyed long tenures—the average length of service of all presidents was 26 years. If they were merely members of the executive board, seven out of 10 served less than six years; only 10 per cent served on the boards for 20 years or more. Their interest in political affairs was not considerable. Like most other Americans, they were "joiners" of many organizations.

It costs the average member from $20 to $40 annually to belong to a union. This expenditure proves worth while in terms of dollars and cents. Unions are in the millionaire income class. Their spending pattern has shifted from emphasis on strike and organizational expenditures to administrative outlays. Fifty years ago many union presidents received five dollars a week; in 1940 their typical weekly income was $250 plus liberal expense allowances, with greatly increased responsibilities.

Part Three contains a vivid description of the continuous adjustments confronting the leadership of a union local in its struggle for recognition and expansion. The study concludes with a discussion of some important issues which the labor leader will face in the future. Professor Ginzberg has whetted the reader's appetite for a follow-up analysis of the "new union leaders" and how they may more successfully solve the problem of integrating their objectives with those of their membership, management, and the public.

PERSONNEL RESEARCH AND TEST DEVELOPMENT IN THE BUREAU OF NAVAL PERSONNEL. Edited by Dewey B. Stuit. Princeton University Press, Princeton, N. J., 1947. 513 pages. $7.50.

*Reviewed by Walter R. Mahler**

The title of this book is one that will catch the attention of personnel executives. Actually, this is not a general treatise but an exhaustive evaluation of the activities of one section of the U. S. Navy Bureau of Personnel during World War II. Insofar as the problems of selection, classification, and training of personnel faced by the Bureau of Personnel during World War II are pertinent to the current problems of business and industry, this work will have a definite contribution to make.

The industrial personnel executive will not find here an outline for a personnel research or testing program for his own organization. The book is intended primarily for the use of personnel psychologists in military organizations, educational institutions, public personnel administration, and business and industry. Personnel specialists will find few distinctly new techniques presented; rather they will learn how one military personnel research organization applied estab-

* The Psychological Corporation, New York, N. Y.

lished techniques to varied problems of military selection, classification, and training.

Part I is devoted to a history of personnel research and test development in the Bureau of Naval Personnel and a general account of the selection, classification, and training programs developed for officer and enlisted personnel. The brief outline of postwar plans for selection and classification of officers and enlisted men provides an indication as to what part of the wartime operation has proved of value.

Part II describes the construction, standardization, and use of selection and classification tests. Experience with the Basic Test Battery suggests the value of a multiple-stage testing program, utilizing a short primary battery for screening and secondary batteries for classification.

Experience with special aptitude tests of the pencil-and-paper types demonstrated that they serve a useful purpose in selection and classification when (1) the measurement of a highly specialized aptitude is required (radio), and (2) refined measurement is required at a given level of ability. In general, it appears that as one goes from the more technical to the less technical occupations, the predictive value of aptitude test scores decreases and the significance of civilian training and occupational experience increases.

A problem common to business and military organizations is the measurement of personal adjustment. Naval experience illustrates the difficulty of its solution. As a reasonably effective and economical instrument for psychiatric referral purposes, the symptom-oriented questionnaire proved its value. The average embroiled personnel manager might find cause for alarm in the discovery that the most valid single item in these inventories is one dealing with headaches. Different inventories gave results in striking similarity when employed on identical populations and then evaluated in terms of the same criterion. Emphasis is placed on the necessity of validating inventories on actual success in adjustment rather than psychiatric prediction of success.

Part III discusses the prediction of success in training. Tests of verbal, mechanical, and mathematical types were found to predict the school grade criteria employed with reasonable success.

Part IV describes the construction and use of achievement measures in the various schools established by the Navy. This program served the primary purpose of standardizing instruction in Navy schools and improving the bases for comparing school-trained personnel.

Part V reports on the follow-up studies of training and classification techniques. Problems in establishing criterion measures are thoroughly discussed. This problem is common to research in any organization, military or non-military. Chapter 20 is unique in that it presents the result of the first systematic study undertaken by the Navy on the relationship between background factors of enlisted personnel and actual performance aboard ship.

An interesting approach to evaluation of personnel practices is described. "Information Surveys" were developed to determine and analyze the opinions of Navy men about various aspects of training, education programs, and Navy life. The discussion of factors influencing the value and usefulness of opinion research will be valuable to the personnel specialist in considering the use of this tool as an evaluation device.

The book covers a wide area of diverse and unrelated activities in a well-coordinated fashion. The personnel specialist will likely find himself desiring considerably more information of a basic nature, an impossibility in one volume. While difficult to avoid, the rather detailed historical treatment proved irritating to this reviewer. Such information may be of interest to Navy personnel but is of little importance to non-military personnel. A certain amount of Navy "slang" has been introduced. In most cases an explanation of the meaning of such terms is given, but some confusion results at times.

As has been pointed out, the results of the Naval research on selection, classification, and training are of value insofar as the research has some relation to the type of problems faced by industry and business today. Such contributions are not too numerous, since most of the results are interpreted in light of the criterion of success in completing training rather than of success as evidenced by efficiency of actual operation on the job. The book will serve a major purpose if it but illustrates the importance of long-range research in addition to the "rapid or expedient" type of research, a characteristic common to the Navy wartime research and much postwar research in business and industry.

LABOR LOOKS AT EDUCATION. By Mark Starr. Harvard University Press, Cambridge, Mass., 1946. 51 pages. $1.00.

*Reviewed by Ordway Tead**

Managerial readers may wonder why they should have to be informed on what organized labor is doing in the field of formal

* Editor, Social & Economic Books, Harper & Brothers, New York.

education and technical training. The answer is simple. The level of personal effectiveness of the generality of organized workers and the level of intellectual and moral acumen of union officials are two controlling factors in determining the efficiency of collective dealings of all types. The kind of responsibility it is broadly required that individual union members and union officers both assume is possible only to those whose education in matters of social importance has gone beyond what is now obtainable in grammar or even high school. Mark Starr, of the I.L.G.W.U., is perhaps the most seasoned educational director in the union movement. In this lecture he has supplied a rapid, objective, and helpful picture of the advances in labor union educational practice in recent years. The record will surprise, and it should gratify, those in management who are not aware of the momentum now attained by self-sustained education in the union movement. I am glad to recommend this book most warmly.

WORK AND EFFORT: *The Psychology of Production.* By Thomas Arthur Ryan. Ronald Press Company, New York, 1947. 317 pages. $4.50.

*Reviewed by Samuel N. Stevens**

Mr. Ryan has endeavored in this work to deal with those aspects of production in which the human factor plays a major part. In his preface, he states:

> "This book provides a systematic survey of psychological investigations concerned with the productivity of men and women at work."

Though many of the subjects normally covered by such a study have been included in this book, a new integration of subject matter has been effected. Outstanding chapters are those which have to do with methods of measuring the cost of work, incentives and motives, and problems connected with skill and practice. Other chapters give conventional treatment to such subjects as work methods and efficiency, fatigue and boredom, time standards and rate setting, and merit rating and job evaluation. As would be expected, the material accorded least satisfactory treatment is that which naturally has a distinctly technological and engineering background rather than a purely psychological one. Thus, time standards and rate setting and job evaluation do not meet the standard of adequacy achieved elsewhere in the volume.

* President, Grinnell College, Grinnell, Iowa.

For the reader accustomed to the technical literature of this field, the book will present an interesting and exciting synthesis of the best research which has been done. In addition, it furnishes much material not commonly found in studies of this nature. Consequently it may well become a standard reference for those who are seriously interested in the field and who have sufficient technical knowledge to appreciate the author's skillful presentation.

The layman seeking an appreciation of the enormous difficulties which surround psychotechnical research, on the other hand, will find in this text adequate evidence of the long, hard road by which men have brought the problem of human effort under systematic scrutiny. He will be made aware that, despite all that has been accomplished, the surface has been barely scratched in most of the important areas of investigation.

Work and Effort is, in this reviewer's opinion, one of the best books yet published on the psychology of work. It is recommended reading for members of management who sincerely desire to employ psychotechnical research methods to improve work performance. After reading it, they will be less ready to accept the validity of "patent medicine" ideas and easy solutions to their problems.

Unfortunately, there are not many colleges and universities where the psychological study of work processes is systematically treated through specific courses or general seminars. Where it is, however, Dr. Ryan's text will be an excellent instrument for classes in which the students have progressed beyond the more superficial orientation in applied psychology.

This book will prove extremely useful as a reference and source work for students in the fields of industrial psychology, industrial engineering, and personnel administration.

JOB EVALUATION: *A Basis for Sound Wage Administration.* By Jay L. Otis and Richard H. Keukart. Prentice-Hall, Inc., New York, 1947. 473 pages. $6.65.

*Reviewed by Nicholas L. A. Martucci**

This is not just another book of the common or garden variety on the subject of job evaluation. It is chockful of helpful facts and procedural information for designing and installing a job evaluation plan as a basis for practical wage and salary administration.

It is not a product of personnel managers

* President, Martucci Management Associates, Inc., New York, N. Y.

or industrial engineers who have merely "dabbled" in this important management technique. The authors have gone to great length to describe job evaluation methodology, heretofore considered "secrets of the trade," in a clear and concise manner. It is an excellent handbook to meet the specific needs of company executives charged with responsibility for installing a job evaluation program. Emphasis is justifiably placed on the necessity for sound planning to attain desired objectives.

The book is particularly suitable as a text for university courses on applied job evaluation. Excellent use can also be made of it in training company personnel and job evaluation committeemen in the principles of job evaluation.

The chapters on job analysis procedures, which represent an adaptation of the methods developed and applied on a national basis by the Division of Occupational Analysis of the U. S. Employment Service, are superior to anything hitherto published.

While the authors do not openly advocate the use of any one system, their partiality to the point system is evident. Relatively little space is devoted to the ranking and classification methods. This is an unfortunate oversight, since all existing job evaluation systems yield satisfactory results if applied in accordance with basic principles. The point or factor comparison methods have no place in a company with less than 40 or 50 job classifications. Similarly, one would not employ the ranking system in an organization with hundreds of different job classifications.

Contests Recommended as Morale Boosters

FOR personnel men who seek employee morale-boosters, two types of employee contests are recommended by Frank Grider, personnel director, Pharis Tire & Rubber Company, Ohio.

A garden contest, open to all employees, is sponsored annually from May until late September by this company. The garden must comprise at least 1,000 square feet and be located in Licking County, Ohio. Entries are made on official blanks, on which the location is clearly indicated. Gardens are judged for arrangement, cleanliness, size, and quality of plants and vegetables by a three-man committee appointed by the personnel director.

A fishing contest is conducted each year from April through September. To enter, fishermen bring their prize catches to the Pharis main gate, where watchmen keep scales handy to weigh the entries. Recorded are the weight, species of fish, name of fisherman, and date of catch.

—*Supervision* 1/48

Employees' Clubrooms

THE Porter-Cable Machine Company, Syracuse, a firm employing less than 400 people, has financed the building of employees' association clubrooms which include four bowling alleys, pool tables, ping pong tables, shuffleboard, two bars, cafeteria, and dance floor. The employees' association, which runs its business without any management interference, pays the company rent for the building, and is paying back the original company investment through a conditional sales contract at the rate of $100 a month.

Sources of income for the association are bowling, the bar, parties, and dances, on which it must pay all direct and indirect expenses—after which, in 1946, it showed a profit of some $5,000.

—*Dun's Review* 12/47

AMA SPRING PRODUCTION CONFERENCE

The Spring Production Conference of the American Management Association will be held on Thursday and Friday, May 13th and 14th, at The Palmer House, Chicago.